

AT&T INC. FINANCIAL REVIEW 2017



Notes to Consolidated Financial Statements	54
Report of Management	88
Report of Independent Registered Public Accounting Firm	89
Board of Directors	91
Executive Officers	92

Notes to Consolidated Financial Statements

Dollars in millions except per share amounts

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation Throughout this document, AT&T Inc. is referred to as “AT&T,” “we” or the “Company.” The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates, including the results of DIRECTV and wireless properties in Mexico for the period from acquisition to the reporting date. Our subsidiaries and affiliates operate in the communications and digital entertainment services industry, providing services and equipment that deliver voice, video and broadband services domestically and internationally.

All significant intercompany transactions are eliminated in the consolidation process. Investments in less than majority-owned subsidiaries and partnerships where we have significant influence are accounted for under the equity method. Earnings from certain investments accounted for using the equity method are included for periods ended within up to one quarter of our period end. We also record our proportionate share of our equity method investees’ other comprehensive income (OCI) items, including translation adjustments. We treat distributions received from equity method investees as returns on investment and classify them as cash flows from operating activities until those distributions exceed our cumulative equity in the earnings of that investment. We treat the excess amount as a return of investment and classify it as cash flows from investing activities.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. Certain prior period amounts have been conformed to the current period’s presentation.

Income Taxes We provide deferred income taxes for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the computed tax basis of those assets and liabilities. We provide valuation allowances against the deferred tax assets (included, together with our deferred income tax assets, as part of our reportable net deferred income tax liabilities on our consolidated balance sheets), for which the realization is uncertain. We review these items regularly in light of changes in federal and state tax laws and changes in our business.

We have included the estimated impact of the recently enacted tax reform in our financial results at or for the period ended December 31, 2017. The Securities and Exchange Commission has issued guidance that provides a “measurement period” whereby registrants can provide a reasonable estimate of the tax reform impact in their financial statements but can adjust that amount during the measurement period (expected to be a year or less). Our future results could include additional adjustments, and those adjustments could be material. (See Note 11)

As of January 1, 2017, we adopted Accounting Standards Update (ASU) No. 2016-16, “Income Taxes (Topic 740)” (ASU 2016-16), with modified retrospective application, resulting in our recognition of an immaterial adjustment to retained earnings. Under ASU 2016-16, we recognize the income tax effects of intercompany sales or transfers of assets other than inventory (e.g., intellectual property or property, plant and equipment) during the period of intercompany sale or transfer instead of the period of either sale or transfer to a third party or recognition of depreciation or impairment.

Accumulated Other Comprehensive Income In February 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” (ASU 2018-02), which allows entities the option to reclassify from accumulated other comprehensive income (accumulated OCI) to retained earnings the stranded tax effects resulting from the application of the Tax Cuts and Jobs Act (Act). We have elected to adopt ASU 2018-02 in the period in which the estimated income tax effects of the Act were recognized, reflecting a \$1,529 provisional adjustment in the consolidated statements of changes in stockholders’ equity. (See Note 3)

Cash and Cash Equivalents Cash and cash equivalents include all highly liquid investments with original maturities of three months or less. The carrying amounts approximate fair value. At December 31, 2017, we held \$4,156 in cash and \$46,342 in money market funds and other cash equivalents. Of our total cash and cash equivalents, \$1,466 resided in foreign jurisdictions, some of which is subject to restrictions on repatriation.

Revenue Recognition Revenues derived from wireless, fixed telephone, data and video services are recognized when services are provided. This is based upon either usage (e.g., minutes of traffic/bytes of data processed), period of time (e.g., monthly service fees) or other established fee schedules. Our service revenues are billed either in advance, arrears or are prepaid.

We record revenue reductions for estimated future adjustments to customer accounts at the time revenue is recognized based on historical experience. We report revenues from transactions between us and our customers net of taxes. Cash incentives given to customers are recorded as a reduction of revenue. Revenues related to nonrefundable, upfront service activation and setup fees are deferred and recognized over the associated service contract period or customer life. Revenue recognized from contracts that bundle services and equipment is limited to the lesser of the amount allocated based on the relative selling price of the equipment and service already delivered or the amount paid and owed by the customer for the equipment and service already delivered. Service revenues also include billings to our customers for various regulatory fees imposed on us by governmental authorities. We record the sale of equipment to customers when we no longer have any

requirements to perform, title has passed and the products are accepted by customers. We record the sale of equipment and services to customers as gross revenue when we are the principal in the arrangement and net of the associated costs incurred when we are not considered the principal.

We offer our customers the option to purchase certain wireless devices in installments over a specified period of time and, in many cases, once certain conditions are met, they may be eligible to trade in the original equipment for a new device and have the remaining unpaid balance paid or settled. For customers that elect these equipment installment payment programs, we recognize revenue for the entire amount of the customer receivable, net of fair value of the trade-in right guarantee and imputed interest.

Allowance for Doubtful Accounts We record expense to maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments deemed collectible from the customer when the service was provided or product was delivered. When determining the allowance, we consider the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts receivable balances with allowances generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as catastrophes or pending bankruptcies.

Inventory Inventories, which are included in "Other current assets" on our consolidated balance sheets, were \$2,225 at December 31, 2017, and \$2,039 at December 31, 2016. Wireless devices and accessories, which are valued at the lower of cost or net realizable value, were \$2,160 at December 31, 2017, and \$1,951 at December 31, 2016.

Property, Plant and Equipment Property, plant and equipment is stated at cost, except for assets acquired using acquisition accounting, which are initially recorded at fair value (see Note 6). The cost of additions and substantial improvements to property, plant and equipment is capitalized, and includes internal compensation costs for these projects; however, noncash actuarial gains or losses included in compensation costs are excluded from amounts reported as "capital expenditures." The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment costs are depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology. Accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation, and no gain or loss is recognized on the disposition of these assets.

Property, plant and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be

recoverable. We recognize an impairment loss when the carrying amount of a long-lived asset is not recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. See Note 6 for a discussion of asset abandonments and impairments.

The liability for the fair value of an asset retirement obligation is recorded in the period in which it is incurred if a reasonable estimate of fair value can be made. In periods subsequent to initial measurement, we recognize period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate. The increase in the carrying value of the associated long-lived asset is depreciated over the corresponding estimated economic life.

Software Costs We capitalize certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in "Property, Plant and Equipment" on our consolidated balance sheets. In addition, there is certain network software that allows the equipment to provide the features and functions unique to the AT&T network, which we include in the cost of the equipment categories for financial reporting purposes.

We amortize our capitalized software costs over a three-year to five-year period, reflecting the estimated period during which these assets will remain in service, which also aligns with the estimated useful lives used in the industry.

Goodwill and Other Intangible Assets AT&T has five major classes of intangible assets: goodwill; licenses, which include Federal Communications Commission (FCC) and other wireless licenses and orbital slots; other indefinite-lived intangible assets, primarily made up of the AT&T and international DIRECTV trade names including SKY; customer lists; and various other finite-lived intangible assets (see Note 7).

Goodwill represents the excess of consideration paid over the fair value of identifiable net assets acquired in business combinations. Wireless licenses (including FCC licenses) provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While wireless licenses are issued for a fixed period of time (generally 10 years), renewals of wireless licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our wireless licenses. Orbital slots represent the space in which we operate the broadcast satellites that support our digital video entertainment service offerings. Similar to our wireless licenses, there are no factors that limit the useful lives of our orbital slots. We acquired the rights to the AT&T and other trade names in previous acquisitions. We have the effective ability to retain these exclusive rights permanently at a nominal cost.

Goodwill, licenses and other indefinite-lived intangible assets are not amortized but are tested at least annually for impairment. The testing is performed on the value as of October 1 each year, and compares the book value of the

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

assets to their fair value. Goodwill is tested by comparing the book value of each reporting unit, deemed to be our principal operating segments or one level below them (Business Solutions, Entertainment Group, Consumer Mobility, and Mexico Wireless, Brazil and PanAmericana in the International segment), to the fair value using both discounted cash flow as well as market multiple approaches. Wireless licenses are tested on an aggregate basis, consistent with our use of the licenses on a national scope, using a discounted cash flow approach. Orbital slots are similarly aggregated for purposes of impairment testing. Trade names are tested by comparing the book value to a fair value calculated using a discounted cash flow approach on a presumed royalty rate derived from the revenues related to the brand name.

Intangible assets that have finite useful lives are amortized over their useful lives (see Note 7). Customer lists and relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the period in which those relationships are expected to contribute to our future cash flows. The remaining finite-lived intangible assets are generally amortized using the straight-line method.

Broadcast Programming and Other Costs We recognize the costs of television programming distribution rights when we distribute the related programming. We expense the costs of television programming rights to distribute live sporting events using the straight-line method over the course of the season or tournament, which approximates the pattern of usage.

Advertising Costs We expense advertising costs for products and services or for promoting our corporate image as we incur them (see Note 19).

Traffic Compensation Expense We use various estimates and assumptions to determine the amount of traffic compensation expense recognized during any reporting period. Switched traffic compensation costs are accrued utilizing estimated rates and volumes by product, formulated from historical data and adjusted for known rate changes. Such estimates are adjusted monthly to reflect newly available information, such as rate changes and new contractual agreements. Bills reflecting actual incurred information are generally not received within three months subsequent to the end of the reporting period, at which point a final adjustment is made to the accrued traffic compensation expense. Dedicated traffic compensation costs are estimated based on the number of circuits and the average projected circuit costs.

Foreign Currency Translation Our foreign subsidiaries and foreign investments generally report their earnings in their local currencies. We translate their foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate their revenues and expenses using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income (accumulated OCI) in the accompanying consolidated balance sheets (see Note 3). Operations in countries with

highly inflationary economies consider the U.S. dollar as the functional currency.

We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a portion of the foreign currency exchange risk involved in anticipation of highly probable foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 10).

Pension and Other Postretirement Benefits See Note 12 for a comprehensive discussion of our pension and postretirement benefit expense, including a discussion of the actuarial assumptions, our policy for recognizing the associated gains and losses and our method used to estimate service and interest cost components.

Accounting Standards to be Adopted in 2018

The impacts of the following accounting standards adopted on January 1, 2018, will be included in our first-quarter 2018 financial statements and disclosures.

Revenue Recognition Beginning with our 2018 interim and annual reporting periods, we will adopt FASB Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," as modified (ASC 606), using the modified retrospective method. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. Under the modified retrospective method, we will apply the rules to all open contracts existing as of January 1, 2018, recognizing in beginning retained earnings for 2018 an adjustment between \$2,000 and \$2,500 for the cumulative effect of the change. For interim and annual reporting for 2018, we will provide additional disclosures comparing results to previous accounting standards.

The key changes in the standard that impact our revenue recognition relate to the allocation of contract revenues between various services and equipment, the timing of when those revenues are recognized and the deferral of incremental contract acquisition costs, now recognizing them over the contract period or expected customer life. For promotional discounts which contain equipment and a service contract, revenue recognition will no longer be constrained by the contingent cap rules that limited revenue recognition to the amount received at contract inception. Rather, revenue will be allocated between delivered and undelivered products and services based on their relative standalone selling prices, resulting in more equipment revenue recognized at the point of sale and, therefore, lower service revenues.

With respect to the requirement to defer incremental contract acquisition costs and recognize them over the expected period of benefit, based on recent experience, we estimate our operating expenses will be slightly lower in the short-term, reflecting higher deferral of contract acquisition costs than amortization of previously deferred contract acquisition costs in the prior period.

With our adoption of the revenue standard, we made a policy election to record certain regulatory fees, primarily Universal Service Fund (USF) fees and recoveries, on a net basis. We expect both revenues and expenses to be lower in future periods.

Pension and Other Postretirement Benefits Beginning with our 2018 interim and annual reporting periods, we will adopt, with retrospective application, ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07), which changes the presentation of periodic benefit cost components. We will no longer present amortization of prior service credits and other components of our net periodic benefit cost in our operating expenses, but rather include those amounts in "other income (expense) – net" in our consolidated statements of income. We will continue to present service costs with the associated compensation costs within our operating results. See Note 12 for our components of net periodic benefit cost.

Cash Flows Beginning with our 2018 interim reporting, we will adopt, with retrospective application, ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" (ASU 2016-15), which provides guidance related to cash flows presentation. The majority of the guidance in ASU 2016-15 is consistent with our current cash flow classifications. Under ASU 2016-15, we will continue to recognize cash receipts on owned equipment installment receivables as cash flows from operations. However, with retrospective application, cash receipts on the deferred purchase price described in Note 15 will be classified as cash flows from investing activities instead of our current presentation as cash flows from operations. Our cash flows from operating activities included cash receipts on the deferred purchase price of \$976 for the year ended December 31, 2017, \$731 for the year ended December 31, 2016 and \$536 for the year ended December 31, 2015.

Beginning with 2018 interim reporting, we will adopt accounting guidance requiring a reconciliation of cash and cash equivalents (restricted and unrestricted) either on the face of the statements of cash flows or in a footnote. As of December 31, 2017, we had a restricted cash and cash equivalents balance of approximately \$440.

Financial Instruments Beginning with 2018 interim reporting, we will adopt ASU No. 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01), which requires us to record changes in the fair value of our equity investments, except for those accounted for under the equity method, in net income instead of in accumulated other comprehensive income. As of December 31, 2017, our net unrealized gain, after taxes, on our available-for-sale equity securities was approximately \$650, which we will include in our cumulative effect adjustments to retained earnings as of January 1, 2018.

New Accounting Standards

Leases In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," as modified (ASU 2016-02), which replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases on their balance sheets as liabilities, with corresponding "right-of-use" assets and is effective for annual reporting periods beginning after December 15, 2018, subject to early adoption. For income statement recognition purposes, leases will be classified as either a finance or an operating lease without relying upon the bright-line tests under current GAAP.

Upon initial evaluation, we believe the key change upon adoption will be the balance sheet recognition. At adoption, we will recognize a right-to-use asset and corresponding lease liability on our consolidated balance sheets. The income statement recognition of lease expense appears similar to our current methodology. We are continuing to evaluate the magnitude and other potential impacts to our financial statements.

NOTE 2. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic and diluted earnings per share is shown in the table below:

Year Ended December 31,	2017	2016	2015
Numerators			
Numerator for basic earnings per share:			
Net income	\$29,847	\$13,333	\$13,687
Less: Net income attributable to noncontrolling interest	(397)	(357)	(342)
Net income attributable to AT&T	29,450	12,976	13,345
Dilutive potential common shares:			
Share-based payment	13	13	13
Numerator for diluted earnings per share	\$29,463	\$12,989	\$13,358
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	6,164	6,168	5,628
Dilutive potential common shares:			
Share-based payment (in shares)	19	21	18
Denominator for diluted earnings per share	6,183	6,189	5,646
Basic earnings per share attributable to AT&T	\$ 4.77	\$ 2.10	\$ 2.37
Diluted earnings per share attributable to AT&T	\$ 4.76	\$ 2.10	\$ 2.37

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

NOTE 3. OTHER COMPREHENSIVE INCOME

Changes in the balances of each component included in accumulated OCI are presented below. All amounts are net of tax and exclude noncontrolling interest.

	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available-for- Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of December 31, 2014	\$ (26)	\$ 499	\$ 741	\$ 6,847	\$ 8,061
Other comprehensive income (loss)					
before reclassifications	(1,172)	—	(763)	45	(1,890)
Amounts reclassified from accumulated OCI	— ¹	(15) ¹	38 ²	(860) ³	(837)
Net other comprehensive income (loss)	(1,172)	(15)	(725)	(815)	(2,727)
Balance as of December 31, 2015	(1,198)	484	16	6,032	5,334
Other comprehensive income (loss)					
before reclassifications	(797)	58	690	497	448
Amounts reclassified from accumulated OCI	— ¹	(1) ¹	38 ²	(858) ³	(821)
Net other comprehensive income (loss)	(797)	57	728	(361)	(373)
Balance as of December 31, 2016	(1,995)	541	744	5,671	4,961
Other comprehensive income (loss)					
before reclassifications	20	187	371	1,083	1,661
Amounts reclassified from accumulated OCI	— ¹	(185) ¹	39 ²	(988) ³	(1,134)
Net other comprehensive income (loss)	20	2	410	95	527
Amounts reclassified to retained earnings ⁴	(79)	117	248	1,243	1,529
Balance as of December 31, 2017	\$(2,054)	\$660	\$1,402	\$7,009	\$7,017

¹ (Gains) losses are included in Other income (expense) – net in the consolidated statements of income.

² (Gains) losses are included in Interest expense in the consolidated statements of income (see Note 10).

³ The amortization of prior service credits associated with postretirement benefits, net of amounts capitalized as part of construction labor, are included in Cost of services and sales and Selling, general and administrative in the consolidated statements of income (see Note 12).

⁴ With the adoption of ASU 2018-02, the stranded tax effects resulting from the application of the Tax Cuts and Jobs Act are reclassified to retained earnings (see Note 1).

NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer products and services to different customer segments over various technology platforms and/or in different geographies that are managed accordingly. We analyze our segments based on Segment Contribution, which consists of operating income, excluding acquisition-related costs and other significant items (as discussed below), and equity in net income (loss) of affiliates for investments managed within each segment. We have four reportable segments: (1) Business Solutions, (2) Entertainment Group, (3) Consumer Mobility and (4) International.

We also evaluate segment performance based on EBITDA and/or EBITDA margin, which is defined as Segment Contribution excluding equity in net income (loss) of affiliates and depreciation and amortization. We believe EBITDA to be a relevant and useful measurement to our investors as it is part of our internal management reporting and planning processes and it is an important metric that management uses to evaluate segment operating

performance. EBITDA does not give effect to cash used for debt service requirements and thus does not reflect available funds for distributions, reinvestment or other discretionary uses. EBITDA margin is EBITDA divided by total revenues.

The *Business Solutions* segment provides services to business customers, including multinational companies; governmental and wholesale customers; and individual subscribers who purchase wireless services through employer-sponsored plans. We provide advanced IP-based services including Virtual Private Networks (VPN); Ethernet-related products; FlexWare, a service that relies on Software Defined Networking (SDN) and Network Functions Virtualization (NFV) to provide application-based routing, and broadband, collectively referred to as fixed strategic services; as well as traditional data and voice products. We utilize our wireless and wired networks to provide a complete communications solution to our business customers.

The *Entertainment Group segment* provides video, internet, voice communication, and interactive and targeted advertising services to customers located in the United States or in U.S. territories. We utilize our IP-based and copper wired network and our satellite technology.

The *Consumer Mobility segment* provides nationwide wireless service to consumers, wholesale and resale wireless subscribers located in the United States or in U.S. territories. We utilize our network to provide voice and data services, including high-speed internet and home monitoring services over wireless devices.

The *International segment* provides entertainment services in Latin America and wireless services in Mexico. Video entertainment services are provided to primarily residential customers using satellite technology. We utilize our regional and national networks in Mexico to provide consumer and business customers with wireless data and voice communication services. Our international subsidiaries conduct business in their local currency, and operating results are converted to U.S. dollars using official exchange rates (operations in countries with highly inflationary economies consider the U.S. dollar as the functional currency).

In reconciling items to consolidated operating income and income before income taxes, *Corporate and Other* includes: (1) operations that are not considered reportable segments and that are no longer integral to our operations or which we no longer actively market, and

(2) impacts of corporate-wide decisions for which the individual segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

Certain operating items are not allocated to our business segments, and those include:

- *Acquisition-related items* which consists of (1) items associated with the merger and integration of acquired businesses and (2) the noncash amortization of intangible assets acquired in acquisitions.
- *Certain significant items* which consists of (1) noncash actuarial gains and losses from pension and other postretirement benefits, (2) employee separation charges associated with voluntary and/or strategic offers, (3) losses resulting from abandonment or impairment of assets and (4) other items for which the segments are not being evaluated.

Interest expense and other income (expense) – net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results.

Our operating assets are utilized by multiple segments and consist of our wireless and wired networks as well as our satellite fleet. Our domestic communications business strategies reflect bundled product offerings that increasingly cut across product lines and utilize our asset base. Therefore, asset information and capital expenditures by segment are not presented. Depreciation is allocated based on asset utilization by segment.

For the year ended December 31, 2017

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	\$ 69,406	\$ 42,929	\$26,477	\$ 9,326	\$17,151	\$ (1)	\$17,150
Entertainment Group	50,698	39,420	11,278	5,623	5,655	(30)	5,625
Consumer Mobility	31,552	18,966	12,586	3,507	9,079	—	9,079
International	8,269	7,404	865	1,218	(353)	87	(266)
Segment Total	159,925	108,719	51,206	19,674	31,532	\$ 56	\$31,588
Corporate and Other	864	554	310	72	238		
Acquisition-related items	—	798	(798)	4,608	(5,406)		
Certain significant items	(243)	5,139	(5,382)	33	(5,415)		
AT&T Inc.	\$160,546	\$115,210	\$45,336	\$24,387	\$20,949		

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

For the year ended December 31, 2016

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	\$ 70,988	\$ 44,330	\$26,658	\$ 9,832	\$16,826	\$ —	\$16,826
Entertainment Group	51,295	39,338	11,957	5,862	6,095	9	6,104
Consumer Mobility	33,200	19,659	13,541	3,716	9,825	—	9,825
International	7,283	6,830	453	1,166	(713)	52	(661)
Segment Total	162,766	110,157	52,609	20,576	32,033	\$61	\$32,094
Corporate and Other	1,043	1,173	(130)	65	(195)		
Acquisition-related items	—	1,203	(1,203)	5,177	(6,380)		
Certain significant items	(23)	1,059	(1,082)	29	(1,111)		
AT&T Inc.	\$163,786	\$113,592	\$50,194	\$25,847	\$24,347		

For the year ended December 31, 2015

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	\$ 71,127	\$ 44,946	\$26,181	\$ 9,789	\$16,392	\$ —	\$16,392
Entertainment Group	35,294	28,345	6,949	4,945	2,004	(4)	2,000
Consumer Mobility	35,066	21,477	13,589	3,851	9,738	—	9,738
International	4,102	3,930	172	655	(483)	(5)	(488)
Segment Total	145,589	98,698	46,891	19,240	27,651	\$ (9)	\$27,642
Corporate and Other	1,297	1,057	240	64	176		
Acquisition-related items	(85)	1,987	(2,072)	2,712	(4,784)		
Certain significant items	—	(1,742)	1,742	—	1,742		
AT&T Inc.	\$146,801	\$100,000	\$46,801	\$22,016	\$24,785		

The following table is a reconciliation of operating income (loss) to “Income Before Income Taxes” reported in our consolidated statements of income:

	2017	2016	2015
Business Solutions	\$17,150	\$16,826	\$16,392
Entertainment Group	5,625	6,104	2,000
Consumer Mobility	9,079	9,825	9,738
International	(266)	(661)	(488)
Segment Contribution	31,588	32,094	27,642
Reconciling Items:			
Corporate and Other	238	(195)	176
Merger and integration charges	(798)	(1,203)	(2,072)
Amortization of intangibles acquired	(4,608)	(5,177)	(2,712)
Actuarial gain (loss)	(1,258)	(1,024)	2,152
Employee separation costs	(445)	(344)	(375)
Tax reform special bonus	(220)	—	—
Gain on wireless spectrum transactions	181	714	—
Natural disaster costs and revenue credits	(627)	(67)	—
Asset abandonments and impairments	(3,046)	(390)	(35)
Segment equity in net income (loss) of affiliates	(56)	(61)	9
AT&T Operating Income	20,949	24,347	24,785
Interest expense	6,300	4,910	4,120
Equity in net income (loss) of affiliates	(128)	98	79
Other income (expense) – net	618	277	(52)
Income Before Income Taxes	\$15,139	\$19,812	\$20,692

The following table sets forth revenues earned from customers, and property, plant and equipment located in different geographic areas.

	2017		2016		2015	
	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment
United States	\$149,841	\$118,200	\$154,039	\$118,664	\$140,234	\$118,515
Latin America						
Brazil	2,948	1,447	2,797	1,265	1,224	1,384
Other	2,743	1,294	2,348	1,828	1,157	1,530
Mexico	2,913	3,619	2,472	2,520	2,046	2,369
Other	2,101	662	2,130	622	2,140	652
Total	\$160,546	\$125,222	\$163,786	\$124,899	\$146,801	\$124,450

NOTE 5. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

Auction 1000 On April 13, 2017, the FCC announced that we were the successful bidder for \$910 of spectrum in 18 markets. We provided the FCC an initial deposit of \$2,348 in July 2016 and received a refund of \$1,438 in April 2017, which was recorded as cash from investing activities in our consolidated statement of cash flows. In the fourth quarter of 2017, we entered into an agreement to sell these wireless licenses at the auction price.

DIRECTV In July 2015, we completed our acquisition of DIRECTV, a leading provider of digital television entertainment services in both the United States and Latin America. For accounting purposes, the transaction was valued at \$47,409. Our consolidated balance sheets include the assets and liabilities of DIRECTV, which have been measured at fair value.

For the 160-day period ended December 31, 2015, our consolidated statement of income included \$14,561 of revenues and \$(46) of operating income, which included \$2,254 of intangible amortization, from DIRECTV and its affiliates. The following unaudited pro forma consolidated results of operations assume that the acquisition of DIRECTV was completed as of January 1, 2014.

	(Unaudited) Year Ended December 31,	
	2015	2014
Total operating revenues	\$165,694	\$165,595
Net Income Attributable to AT&T	12,683	6,412
Basic Earnings Per Share		
Attributable to AT&T	\$ 2.06	\$ 1.04
Diluted Earnings Per Share		
Attributable to AT&T	\$ 2.06	\$ 1.04

Nextel Mexico In April 2015, we completed our acquisition of the subsidiaries of NII Holdings Inc., operating its wireless business in Mexico, for \$1,875, including approximately \$427 of net debt and other adjustments. The subsidiaries offered service under the name Nextel Mexico.

GSF Telecom In January 2015, we acquired Mexican wireless company GSF Telecom Holdings, S.A.P.I. de C.V. (GSF Telecom) for \$2,500, including net debt of approximately \$700. GSF Telecom offered service under both the Iusacell and Unefon brand names in Mexico.

AWS-3 Auction In January 2015, we submitted winning bids of \$18,189 in the Advanced Wireless Service (AWS)-3 Auction (FCC Auction 97), a portion of which represented spectrum clearing and First Responder Network Authority funding. We provided the FCC an initial down payment of \$921 in October 2014 and paid the remaining \$17,268 in the first quarter of 2015.

Spectrum Acquisitions and Swaps On occasion, we swap spectrum with other wireless providers to ensure we have efficient and contiguous coverage across our markets and service areas. During 2017, we swapped FCC licenses with a fair value of approximately \$2,003 with other carriers and recorded a net gain of \$181. During 2016, we swapped FCC licenses with a fair value of approximately \$2,122 with other carriers and recorded a net gain of \$714. During 2015, we acquired \$489 of wireless spectrum, not including the AWS auction.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Pending Acquisition

Time Warner Inc. On October 22, 2016, we entered into and announced a merger agreement (Merger Agreement) to acquire Time Warner Inc. (Time Warner) in a 50% cash and 50% stock transaction for \$107.50 per share of Time Warner common stock, or approximately \$85,400 at the date of the announcement (Merger). Combined with Time Warner's net debt at December 31, 2017, the total transaction value is approximately \$106,523. Each share of Time Warner common stock will be exchanged for \$53.75 per share in cash and a number of shares of AT&T common stock equal to the exchange ratio. If the average stock price (as defined in the Merger Agreement) at the time of closing the Merger is between (or equal to) \$37.411 and \$41.349 per share, the exchange ratio will be the quotient of \$53.75 divided by the average stock price. If the average stock price is greater than \$41.349, the exchange ratio will be 1.300. If the average stock price is less than \$37.411, the exchange ratio will be 1.437. Post-transaction, Time Warner shareholders will own between 14.4% and 15.7% of AT&T shares on a fully-diluted basis based on the number of AT&T shares outstanding.

Time Warner is a global leader in media and entertainment whose major businesses encompass an array of some of the most respected and successful media brands. The deal combines Time Warner's vast library of content and ability to create new premium content for audiences around the world with our extensive customer relationships and distribution, one of the world's largest pay-TV subscriber bases and leading scale in TV, mobile and broadband distribution.

The Merger Agreement was approved by Time Warner shareholders on February 15, 2017. The transaction has been approved by all requisite foreign jurisdictions. On November 20, 2017, the U.S. Department of Justice filed a civil antitrust lawsuit against AT&T, challenging our proposed acquisition of Time Warner. The case will be heard in the U.S. District Court for the District of Columbia on March 19, 2018. On December 21, 2017, an agreement was reached with Time Warner to extend the original termination date of April 22, 2018 to June 21, 2018. If the Merger is terminated as a result of reaching the extended termination date, (and at that time one or more of the conditions relating to certain regulatory approvals have not been satisfied) or there is a final, non-appealable order preventing the transaction relating to antitrust laws, communications laws, utilities laws or foreign regulatory laws, then under certain circumstances, we would be obligated to pay Time Warner \$500.

Dispositions

YP Holdings LLC In June 2017, YP Holdings LLC was acquired by Dex Media. Our results include a gain of \$36 for our portion of the proceeds.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

	Lives (years)	2017	2016
Land	—	\$ 1,630	\$ 1,643
Buildings and improvements	2-44	36,319	35,036
Central office equipment ¹	3-10	94,076	92,954
Cable, wiring and conduit	15-50	67,695	79,279
Satellites	14-17	2,967	2,710
Other equipment	3-20	90,017	88,436
Software	3-5	16,750	14,472
Under construction	—	4,045	5,118
		313,499	319,648
Accumulated depreciation and amortization		188,277	194,749
Property, plant and equipment – net		\$125,222	\$124,899

¹ Includes certain network software.

Our depreciation expense was \$19,761 in 2017, \$20,661 in 2016 and \$19,289 in 2015. Depreciation expense included amortization of software totaling \$2,810 in 2017, \$2,362 in 2016 and \$1,660 in 2015.

During the fourth quarter of 2017, we determined that certain copper assets will not be necessary to support future network activity due to fiber deployment plans in particular markets. We recorded a noncash pretax charge of \$2,883 to abandon these assets.

During the fourth quarter of 2016, we recorded a noncash pretax charge of \$278 for the impairment of certain wireless assets that were under construction. These assets primarily related to capitalized costs for wireless sites that are no longer in our construction plans.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were \$4,953 for 2017, \$4,482 for 2016 and \$5,025 for 2015. At December 31, 2017, the future minimum rental payments under noncancelable operating leases for the years 2018 through 2022 were \$3,945, \$3,686, \$3,414, \$2,968 and \$2,659, with \$9,256 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. At December 31, 2017, the present value of the future minimum rental payments under capital leases for the years 2018 through 2022 were \$142, \$90, \$100, \$103 and \$115, with \$1,268 due thereafter.

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table sets forth the changes in the carrying amounts of goodwill by segment, which is the same as reporting unit for Business Solutions, Entertainment Group and Consumer Mobility. The International segment has three reporting units: Mexico Wireless, Brazil and PanAmericana.

	Business Solutions	Entertainment Group	Consumer Mobility	International	Total
Balance as of December 31, 2015	\$ 45,351	\$ 38,673	\$ 16,512	\$ 4,032	\$ 104,568
Goodwill acquired	22	380	14	65	481
Foreign currency translation adjustments	—	—	—	167	167
Other	(9)	—	—	—	(9)
Balance as of December 31, 2016	45,364	39,053	16,526	4,264	105,207
Goodwill acquired	—	210	—	—	210
Foreign currency translation adjustments	—	12	—	(30)	(18)
Other	31	5	14	—	50
Balance as of December 31, 2017	\$45,395	\$39,280	\$16,540	\$4,234	\$105,449

The majority of our goodwill acquired during 2017 related to our acquisition of INVIDI Technologies, a leading provider in addressable advertising platforms, the final valuation of Quickplay Media and other adjustments. Other changes to our goodwill in 2017 include foreign currency translation adjustments.

The majority of our goodwill acquired during 2016 related to the final valuation of DIRECTV, Nextel Mexico and GSF Telecom, as well as our acquisition of Quickplay Media. Other changes to our goodwill in 2016 include foreign currency translation adjustments.

Our other intangible assets are summarized as follows:

	December 31, 2017			December 31, 2016		
	Gross Carrying Amount	Currency Translation Adjustment	Accumulated Amortization	Gross Carrying Amount	Currency Translation Adjustment	Accumulated Amortization
Other Intangible Assets						
Amortized intangible assets:						
Customer lists and relationships:						
Wireless acquisitions	\$ 764	\$ —	\$ 683	\$ 942	\$ —	\$ 715
BellSouth Corporation	2,370	—	2,370	4,450	—	4,429
DIRECTV	19,551	(141)	8,950	19,547	(125)	5,618
AT&T Corp.	33	—	29	33	—	26
Mexican wireless	506	(97)	278	506	(108)	214
Subtotal	23,224	(238)	12,310	25,478	(233)	11,002
Trade names	2,942	(6)	2,366	2,942	(7)	1,394
Other	781	(3)	335	707	(3)	283
Total	\$ 26,947	\$(247)	\$15,011	\$ 29,127	\$(243)	\$12,679
Indefinite-lived intangible assets not subject to amortization:						
Licenses:						
Wireless licenses	\$ 84,434			\$ 82,474		
Orbital slots	11,702			11,702		
Trade names	6,451			6,479		
Total	\$102,587			\$100,655		

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Amortized intangible assets are definite-life assets, and, as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets, over a weighted-average life of 8.5 years (9.2 years for customer lists and relationships and 4.2 years for trade names and other). Amortization expense for definite-life intangible assets was \$4,626 for the year ended December 31, 2017, \$5,186 for the year ended December 31, 2016 and \$2,728 for the year ended December 31, 2015. Amortization expense is estimated to be \$3,002 in 2018, \$2,489 in 2019, \$2,009 in 2020, \$1,535 in 2021, and \$1,074 in 2022.

In 2017, we wrote off approximately \$2,273 of fully amortized intangible assets (primarily customer lists). In 2016, we wrote off approximately \$117 of fully amortized intangible assets (primarily customer lists). We review amortized intangible assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

NOTE 8. EQUITY METHOD INVESTMENTS

Investments in partnerships, joint ventures and less than majority-owned subsidiaries in which we have significant influence are accounted for under the equity method.

Our investments in equity affiliates at December 31, 2017 primarily include our interests in SKY Mexico, Game Show Network and Otter Media Holdings.

SKY Mexico We hold a 41.3% interest in SKY Mexico, which is a leading pay-TV provider in Mexico.

Game Show Network (GSN) We hold a 42.0% interest in GSN, a television network dedicated to game-related programming and internet interactive game playing.

Otter Media Holdings We hold a 49.8% interest in Otter Media Holdings, a venture between The Chernin Group and AT&T that is focused on acquiring, investing and launching over-the-top subscription video services.

The following table is a reconciliation of our investments in equity affiliates as presented on our consolidated balance sheets:

	2017	2016
Beginning of year	\$1,674	\$1,606
Additional investments	51	208
Equity in net income (loss) of affiliates	(128)	98
Dividends and distributions received	(46)	(61)
Currency translation adjustments	22	(156)
Other adjustments	(13)	(21)
End of year	\$1,560	\$1,674

NOTE 9. DEBT

Long-term debt of AT&T and its subsidiaries, including interest rates and maturities, is summarized as follows at December 31:

	2017	2016	
Notes and debentures ¹			
Interest Rates	Maturities ²		
0.49% – 2.99%	2017 – 2022	\$ 20,534	\$ 26,396
3.00% – 4.99%	2017 – 2049	93,915	66,520
5.00% – 6.99%	2017 – 2095	46,343	26,883
7.00% – 9.50%	2017 – 2097	4,579	5,050
Other		680	4
Fair value of interest rate swaps recorded in debt		(20)	48
	166,031	124,901	
Unamortized (discount) premium – net	(2,968)	(2,201)	
Unamortized issuance costs	(537)	(319)	
Total notes and debentures	162,526	122,381	
Capitalized leases	1,818	869	
Other	—	259	
Total long-term debt, including current maturities	164,344	123,509	
Current maturities of long-term debt	(38,372)	(9,828)	
Total long-term debt	\$125,972	\$113,681	

¹ Includes credit agreement borrowings.

² Maturities assume puttable debt is redeemed by the holders at the next opportunity.

We had outstanding Euro, British pound sterling, Canadian dollar, Swiss franc, Mexican peso and Brazilian real denominated debt of approximately \$37,621 and \$24,292 at December 31, 2017 and 2016. The weighted-average interest rate of our entire long-term debt portfolio, including the impact of derivatives, increased from 4.2% at December 31, 2016 to 4.4% at December 31, 2017.

Current maturities of long-term debt include debt that may be put back to us by the holders in 2018. We have \$1,000 of annual put reset securities that may be put each April until maturity in 2021. If the holders do not require us to repurchase the securities, the interest rate will be reset based on current market conditions. Likewise, we have an accreting zero-coupon note that may be redeemed each May, until maturity in 2022. If the zero-coupon note (issued for principal of \$500 in 2007 and partially exchanged in the 2017 debt exchange offers) is held to maturity, the redemption amount will be \$592.

We also have \$30,154 of notes subject to mandatory redemption if our acquisition of Time Warner is not completed by April 22, 2018. The terms of these notes require a redemption price equal to 101% of the principal amount of the notes, plus accrued but unpaid interest. In light of the civil antitrust lawsuit challenging our proposed acquisition of Time Warner (see Note 5), we have classified the notes subject to mandatory redemption as current maturities at December 31, 2017.

On February 15, 2018, we announced private offers to exchange five series of Euro (face value of €5,250) and British pound sterling (face value of £1,000) denominated notes subject to mandatory redemption for new notes that are not subject to mandatory redemption and cash. The new notes are Euro and British pound sterling denominated global notes with either a floating rate or stated rates between 1.050% and 3.550%. The exchange is expected to settle on February 27, 2018.

Debt maturing within one year consisted of the following at December 31:

	2017	2016
Current maturities of long-term debt	\$38,372	\$9,828
Bank borrowings ¹	2	4
Total	\$38,374	\$9,832

¹ Outstanding balance of short-term credit facility of a foreign subsidiary.

Financing Activities

During 2017, we received net proceeds of \$48,793 on the issuance of \$49,161 in long-term debt in various markets, with an average weighted maturity of approximately 18 years and a weighted average coupon of 4.35%. We redeemed \$12,339 in borrowings of various notes with stated rates of 1.40% to 5.79%.

Debt Exchange

On December 1, 2017, we completed two exchange offers. In the first exchange offer, approximately \$5,448 of notes issued by AT&T Inc., DIRECTV Holdings LLC and DIRECTV Financing Co., Inc., due between 2020 and 2023 with stated rates of zero-coupon to 5.200%, were tendered and accepted in exchange for \$5,605 of two new series of AT&T Inc. global notes with stated rates of 4.100% and 4.300%. In the second exchange offer, approximately \$3,726 of notes issued by AT&T Inc. or one of its subsidiaries, due between 2022 and 2097 with stated rates of 5.850% to 8.750%, were tendered and accepted in exchange for \$3,736 of new AT&T Inc. global notes with stated rates of 5.150% to 8.750% plus a \$449 cash payment.

As of December 31, 2017 and 2016, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Maturities of outstanding long-term notes and debentures, as of December 31, 2017, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2018	2019	2020	2021	2022	There-after
Debt						
repayments ¹	\$37,836	\$8,793	\$7,464	\$8,465	\$9,690	\$95,631
Weighted-average						
interest rate	4.2%	3.5%	2.9%	3.6%	3.2%	4.8%

¹ Debt repayments assume putable debt is redeemed by the holders at the next opportunity.

Credit Facilities

General

On September 29, 2017, we entered into a five-year \$2,250 syndicated term loan credit agreement (the "Nova Scotia Credit Agreement") containing (i) a \$750 term loan facility (the "Tranche A Facility"), (ii) a \$750 term loan facility (the "Tranche B Facility") and (iii) a \$750 term loan facility (the "Tranche C Facility"), with certain investment and commercial banks and The Bank of Nova Scotia, as administrative agent. No amounts are outstanding under the Tranche A Facility, the Tranche B Facility or the Tranche C Facility as of December 31, 2017.

In December 2015, we entered into a five-year, \$12,000 revolving credit agreement (the "Revolving Credit Agreement") with certain banks. As of December 31, 2017, we have no amounts outstanding under this agreement.

In January 2015, we entered into a \$9,155 credit agreement (the "Syndicated Credit Agreement") containing (i) a \$6,286 term loan ("Loan A") and (ii) a \$2,869 term loan ("Loan B"), with certain banks. In March 2015, we borrowed all amounts available under the agreement. In June 2016, we repaid \$4,000 of the outstanding amount under Loan A and \$1,000 of the outstanding amount under Loan B. After repayment, the amortization in Loan B has been satisfied. On September 5, 2017, we repaid all of the amounts outstanding under our \$9,155 syndicated credit agreement and terminated the facility.

On October 22, 2016, in connection with entering into the Time Warner merger agreement, AT&T entered into a \$40,000 bridge loan with JPMorgan Chase Bank and Bank of America as lenders (the "Bridge Loan"), which was subsequently reduced to \$30,000. In September 2017, following the completion of our acquisition-related debt issuances, we reduced the commitments under the Bridge Loan to \$0 and terminated the facility.

On November 15, 2016, we entered into a \$10,000 term loan credit agreement (the "Term Loan") with a syndicate of 20 lenders. No amounts will be borrowed under the Term Loan prior to the closing of the Time Warner merger. Borrowings will be used solely to finance a portion of the cash to be paid in the Merger, the refinancing of debt of Time Warner and its subsidiaries and the payment of related expenses. Prior to the closing date of the Merger, only a payment or bankruptcy event of default would permit the lenders to terminate their commitments under the Term Loan. On February 2, 2018, we amended the Term Loan to extend the commitment termination date to December 31, 2018 and increase the commitments to \$16,175.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Each of our credit and loan agreements contains covenants that are customary for an issuer with an investment grade senior debt credit rating, as well as a net debt-to-EBITDA (earnings before interest, taxes, depreciation and amortization, and other modifications described in each agreement) financial ratio covenant requiring AT&T to maintain, as of the last day of each fiscal quarter, a ratio of not more than 3.5-to-1. The events of default are customary for agreements of this type and such events would result in the acceleration of, or would permit the lenders to accelerate, as applicable, required payments and would increase each agreement's relevant Applicable Margin by 2.00% per annum.

Nova Scotia Credit Agreement

The obligations of the lenders to advance funds under the Nova Scotia Credit Agreement will end on January 31, 2018, unless prior to that date either:

(i) AT&T reduces to \$0 the commitments of the lenders, or (ii) certain events of default occur.

Advances under this agreement would bear interest, at AT&T's option, either:

- at a variable annual rate equal to (1) the highest of: (a) the base rate of Scotiabank, (b) 0.50% per annum above the Federal funds rate, and (c) the ICE Benchmark Administration Limited Settlement Rate applicable to U.S. dollars for a period of one month plus 1.00% per annum, plus (2) an applicable margin (as set forth in the Nova Scotia Credit Agreement); or
- at a rate equal to: (i) LIBOR for a period of three or six months, as applicable, plus (ii) an applicable margin (as set forth in the Nova Scotia Credit Agreement).

We will pay a facility fee of 0.070% per annum of the amount of lender commitments.

Revolving Credit Agreement

The obligations of the lenders to advance funds under the Revolving Credit Agreement will end on December 11, 2020, unless prior to that date either:

(i) AT&T reduces to \$0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than 50% of the facility amount may agree to extend their commitments for two one-year periods beyond the December 11, 2020 end date, under certain circumstances.

Advances under this agreement would bear interest, at AT&T's option, either:

- at a variable annual rate equal to (1) the highest of: (a) the base rate of the bank affiliate of Citibank, N.A., (b) 0.50% per annum above the federal funds rate, and (c) the London Interbank Offered Rate (LIBOR) applicable to U.S. dollars for a period of one month plus 1.00% per annum, plus (2) an applicable margin (as set forth in this agreement); or
- at a rate equal to: (i) LIBOR for a period of one, two, three or six months, as applicable, plus (ii) an applicable margin (as set forth in this agreement).

We will pay a facility fee of 0.070%, 0.090%, 0.100% or 0.125% per annum, depending on AT&T's credit rating, of the amount of lender commitments.

Term Loan

Under the Term Loan, there are two tranches of commitments, each in a total amount of \$8,087.

The obligations of the lenders under the Term Loan to provide advances will terminate on the earliest of (i) December 31, 2018, (ii) the closing of the Time Warner merger without the borrowing of advances under the Term Loan and (iii) the termination of the Merger Agreement.

Advances would bear interest, at AT&T's option, either:

- at a variable annual rate equal to: (1) the highest of (a) the prime rate of JPMorgan Chase Bank, N.A., (b) 0.5% per annum above the federal funds rate, and (c) the LIBOR rate applicable to dollars for a period of one month plus 1.00%, plus (2) an applicable margin, as set forth in the Term Loan (the "Applicable Margin for Base Advances (Term Loan)"); or
- at a rate equal to: (i) LIBOR (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) an applicable margin, as set forth in the Term Loan (the "Applicable Margin for Eurodollar Rate Advances (Term Loan)").

The Applicable Margin for Eurodollar Rate Advances (Term Loan) under Tranche A is equal to 1.000%, 1.125% or 1.250% per annum, depending on AT&T's credit ratings. The Applicable Margin for Eurodollar Rate Advances (Term Loan) under Tranche B is equal to 1.125%, 1.250% or 1.375% per annum, depending on AT&T's credit ratings. The Applicable Margin for Base Advances (Term Loan) is equal to the greater of (x) 0.00% and (y) the relevant Applicable Margin for Eurodollar Rate Advances (Term Loan) minus 1.00% per annum, depending on AT&T's credit ratings.

AT&T pays a commitment fee of 0.090%, 0.100%, or 0.125% of the commitment amount per annum, depending on AT&T's credit ratings.

Advances under the Term Loan are conditioned on the absence of a material adverse effect on Time Warner and certain customary conditions.

Repayment of all advances with respect to Tranche A must be made no later than two years and six months after the date on which such advances are made.

Amounts borrowed under Tranche B will be subject to amortization commencing two years and nine months after the date on which such advances are made, with 25% of the aggregate principal amount thereof being payable prior to the date that is four years and six months after the date on which such advances are made, and all remaining principal amount due and payable on the date that is four years and six months after the date on which such advances are made.

NOTE 10. FAIR VALUE MEASUREMENTS AND DISCLOSURE

The Fair Value Measurement and Disclosure framework provides a three-tiered fair value hierarchy that gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we have the ability to access.
Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none"> • Quoted prices for similar assets and liabilities in active markets. • Quoted prices for identical or similar assets or liabilities in inactive markets. • Inputs other than quoted market prices that are observable for the asset or liability. • Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement. <ul style="list-style-type: none"> • Fair value is often based on developed models in which there are few, if any, external observations.

The fair value measurements level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Our valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net

realizable value or reflective of future fair values. We believe our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used since December 31, 2016.

Long-Term Debt and Other Financial Instruments

The carrying amounts and estimated fair values of our long-term debt, including current maturities, and other financial instruments, are summarized as follows:

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures ¹	\$162,526	\$171,938	\$122,381	\$128,726
Bank borrowings	2	2	4	4
Investment securities	2,447	2,447	2,587	2,587

¹ Includes credit agreement borrowings.

The carrying amount of debt with an original maturity of less than one year approximates fair value. The fair value measurements used for notes and debentures are considered Level 2 and are determined using various methods, including quoted prices for identical or similar securities in both active and inactive markets.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Following is the fair value leveling for available-for-sale securities and derivatives as of December 31, 2017, and December 31, 2016. Derivatives designated as hedging instruments are reflected as "Other assets," "Other noncurrent liabilities" and, for a portion of interest rate swaps, "Other current assets" on our consolidated balance sheets.

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
Available-for-Sale Securities				
Domestic equities	\$1,142	\$ —	\$ —	\$ 1,142
International equities	321	—	—	321
Fixed income bonds	—	733	—	733
Asset Derivatives				
Interest rate swaps	—	17	—	17
Cross-currency swaps	—	1,753	—	1,753
Liability Derivatives				
Interest rate swaps	—	(31)	—	(31)
Cross-currency swaps	—	(1,290)	—	(1,290)

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
Available-for-Sale Securities				
Domestic equities	\$ 1,215	\$ —	\$ —	\$ 1,215
International equities	594	—	—	594
Fixed income bonds	—	508	—	508
Asset Derivatives				
Interest rate swaps	—	79	—	79
Cross-currency swaps	—	89	—	89
Liability Derivatives				
Interest rate swaps	—	(14)	—	(14)
Cross-currency swaps	—	(3,867)	—	(3,867)

Investment Securities

Our investment securities include equities, fixed income bonds and other securities. A substantial portion of the fair values of our available-for-sale securities was estimated based on quoted market prices. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Realized gains and losses on securities are included in "Other income (expense) – net" in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated OCI. Unrealized losses that are considered other than temporary are recorded in "Other income (expense) – net" with the corresponding reduction to the carrying basis of the investment. Fixed income investments of \$1 have maturities of less than one year, \$191 within one to three years, \$31 within three to five years, and \$510 for five or more years.

Our cash equivalents (money market securities), short-term investments (certificate and time deposits) and nonrefundable customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values. Short-term investments and nonrefundable customer deposits are recorded in "Other current assets" and our investment securities are recorded in "Other Assets" on the consolidated balance sheets.

Derivative Financial Instruments

We enter into derivative transactions to manage certain market risks, primarily interest rate risk and foreign currency exchange risk. This includes the use of interest rate swaps, interest rate locks, foreign exchange forward contracts and combined interest rate foreign exchange contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We record derivatives on our consolidated balance sheets at fair value that is derived from observable market data, including yield curves and

foreign exchange rates (all of our derivatives are Level 2). Cash flows associated with derivative instruments are presented in the same category on the consolidated statements of cash flows as the item being hedged.

Fair Value Hedging We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed-rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense in the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. Changes in the fair values of the interest rate swaps are exactly offset by changes in the fair value of the underlying debt. Gains or losses realized upon early termination of our fair value hedges are recognized in interest expense. In the years ended December 31, 2017, and December 31, 2016, no ineffectiveness was measured on interest rate swaps designated as fair value hedges.

Cash Flow Hedging We designate our cross-currency swaps as cash flow hedges. We have entered into multiple cross-currency swaps to hedge our exposure to variability in expected future cash flows that are attributable to foreign currency risk generated from the issuance of our Euro, British pound sterling, Canadian dollar and Swiss franc denominated debt. These agreements include initial and final exchanges of principal from fixed foreign currency denominations to fixed U.S. dollar denominated amounts, to be exchanged at a specified rate that is usually determined by the market spot rate upon issuance. They also include an interest rate swap of a fixed or floating foreign-denominated rate to a fixed U.S. dollar denominated interest rate.

Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as "Other income (expense) – net" in the consolidated statements of income in each period. We evaluate the effectiveness of our cross-currency swaps each quarter. In the years ended December 31, 2017, and December 31, 2016, no ineffectiveness was measured on cross-currency swaps designated as cash flow hedges.

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. Over the next 12 months, we expect to reclassify \$58 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks.

We hedge a portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Gains and losses at the time we settle or take delivery on our designated foreign exchange contracts are amortized into income in the same period the hedged transaction affects earnings, except where an amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. In the years ended December 31, 2017, and December 31, 2016, no ineffectiveness was measured on foreign exchange contracts designated as cash flow hedges.

Collateral and Credit-Risk Contingency We have entered into agreements with our derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. At December 31, 2017, we had posted collateral of \$495 (a deposit asset) and held collateral of \$968 (a receipt liability). Under the agreements, if AT&T's credit rating had been downgraded one rating level by Fitch Ratings, before the final collateral exchange in December, we would have been required to post additional collateral of \$107. If DIRECTV Holdings LLC's credit rating had been downgraded below BBB- (S&P), we would owe an additional \$160. At December 31, 2016, we had posted collateral of \$3,242 (a deposit asset) and held no collateral. We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) exists, against the fair value of the derivative instruments.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Following are the notional amounts of our outstanding derivative positions:

	2017	2016
Interest rate swaps	\$ 9,833	\$ 9,650
Cross-currency swaps	38,694	29,642
Total	\$48,527	\$39,292

Following are the related hedged items affecting our financial position and performance:

Effect of Derivatives on the Consolidated Statements of Income

Fair Value Hedging Relationships For the years ended December 31,	2017	2016	2015
Interest rate swaps (Interest expense):			
Gain (Loss) on interest rate swaps	\$(68)	\$(61)	\$(16)
Gain (Loss) on long-term debt	68	61	16

In addition, the net swap settlements that accrued and settled in the periods above were included in interest expense.

Cash Flow Hedging Relationships For the years ended December 31,	2017	2016	2015
Cross-currency swaps:			
Gain (Loss) recognized in accumulated OCI	\$571	\$1,061	\$(813)
Interest rate locks:			
Gain (Loss) recognized in accumulated OCI	—	—	(361)
Interest income (expense) reclassified from accumulated OCI into income	(60)	(59)	(58)

NOTE 11. INCOME TAXES

The Tax Cuts and Jobs Acts (the Act) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate income tax rate from 35% to 21% and requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. ASC 740, "Income Taxes," requires that effects of changes in tax rates to be recognized in the period enacted. Recognizing the late enactment of the Act and complexity of accurately accounting for its impact, the Securities and Exchange Commission in SAB 118 provided guidance that allows registrants to provide a reasonable estimate of the Act in their financial statements and adjust the reported impact in a measurement period not to exceed one year.

As of December 31, 2017, we have not completed our accounting for the tax effects of the Act; however, a reasonable estimate was made to remeasure most of our deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future as a result of the reduction in the federal tax rate, and we recorded a provisional amount for our one-time transition tax liability. In some cases, we have not been able to complete the analysis to allow us to make a reasonable estimate and continue to account for those items based on our existing accounting under ASC 740 and the provisions of the tax laws that were in effect prior to enactment of the Act. We continue to make and refine our calculations as additional analysis is completed. The provisional tax benefit recorded of \$20,271 related to the remeasurement of our deferred tax balances and other impacts of the Act and resulted in a reduction to our current and deferred tax liabilities with a corresponding reduction to total income tax expense.

We are still analyzing the Act and refining our calculation, which could materially impact the measurement of our tax balances. The 2017 impact of the enactment of the Act is reflected in the tables below.

Significant components of our deferred tax liabilities (assets) are as follows at December 31:

	2017	2016
Depreciation and amortization	\$30,982	\$ 44,903
Licenses and nonamortizable intangibles	16,129	22,892
Employee benefits	(6,202)	(10,045)
Deferred fulfillment costs	2,472	3,204
Net operating loss and other carryforwards	(6,067)	(4,304)
Other – net	1,222	(216)
Subtotal	38,536	56,434
Deferred tax assets valuation allowance	4,640	2,283
Net deferred tax liabilities	\$43,176	\$ 58,717
Noncurrent deferred tax liabilities	\$43,207	\$ 60,128
Less: Noncurrent deferred tax assets	(31)	(1,411)
Net deferred tax liabilities	\$43,176	\$ 58,717

At December 31, 2017, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of \$240, state of \$916 and foreign of \$2,770, expiring through 2037. Additionally, we had federal credit carryforwards of \$381 and state credit carryforwards of \$1,760, expiring primarily through 2037.

We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. Our valuation allowances at December 31, 2017 and 2016 related primarily to state and foreign net operating losses and state credit carryforwards.

We recognize the financial statement effects of a tax return position when it is more likely than not, based on the technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, we apply our judgment, taking into account applicable tax laws, our experience in managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in our financial statements. For each position, the difference between the benefit realized on our tax return and the benefit reflected in our financial statements is recorded on our consolidated balance sheets as an unrecognized tax benefit (UTB). We update our UTBs at each financial statement date to reflect the impacts of audit settlements and other resolutions of audit issues, the expiration of statutes of limitation, developments in tax law and ongoing discussions with taxing authorities. A reconciliation of the change in our UTB balance from January 1 to December 31 for 2017 and 2016 is as follows:

Federal, State and Foreign Tax	2017	2016
Balance at beginning of year	\$ 6,516	\$ 6,898
Increases for tax positions related to the current year	1,438	318
Increases for tax positions related to prior years	200	473
Decreases for tax positions related to prior years	(461)	(1,168)
Lapse of statute of limitations	(28)	(25)
Settlements	(23)	50
Foreign currency effects	6	(30)
Balance at end of year	7,648	6,516
Accrued interest and penalties	1,333	1,140
Gross unrecognized income tax benefits	8,981	7,656
Less: Deferred federal and state income tax benefits	(388)	(557)
Less: Tax attributable to timing items included above	(2,368)	(3,398)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	\$ 6,225	\$ 3,701

Periodically we make deposits to taxing jurisdictions which reduce our UTB balance but are not included in the reconciliation above. The amount of deposits that reduced our UTB balance was \$3,058 at December 31, 2017 and \$3,084 at December 31, 2016.

Accrued interest and penalties included in UTBs were \$1,333 as of December 31, 2017, and \$1,140 as of December 31, 2016. We record interest and penalties related to federal, state and foreign UTBs in income tax expense. The net interest and penalty expense included in income tax expense was \$107 for 2017, \$24 for 2016 and \$83 for 2015.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions.

As a large taxpayer, our income tax returns are regularly audited by the Internal Revenue Service (IRS) and other taxing authorities. The IRS has completed field examinations of our tax returns through 2010. All audit periods prior to 2003 are closed for federal examination purposes. Contested issues from our 2003 through 2010 returns are at various stages of resolution with the IRS Appeals Division; we are unable to estimate the impact the resolution of these issues may have on our UTBs.

The components of income tax (benefit) expense are as follows:

	2017	2016	2015
Federal:			
Current	\$ 682	\$2,915	\$2,496
Deferred	(17,970)	3,127	3,828
	(17,288)	6,042	6,324
State and local:			
Current	79	282	72
Deferred	1,041	339	671
	1,120	621	743
Foreign:			
Current	471	335	320
Deferred	989	(519)	(382)
	1,460	(184)	(62)
Total	\$ (14,708)	\$6,479	\$7,005

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

"Income Before Income Taxes" in the Consolidated Statements of Income included the following components for the years ended December 31:

	2017	2016	2015
U.S. income before income taxes	\$16,438	\$20,911	\$21,519
Foreign income (loss) before income taxes	(1,299)	(1,099)	(827)
Total	\$15,139	\$19,812	\$20,692

A reconciliation of income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate (35% for 2017, 2016 and 2015) to income from continuing operations before income taxes is as follows:

	2017	2016	2015
Taxes computed at federal statutory rate	\$ 5,299	\$6,934	\$7,242
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	509	416	483
Enactment of the Tax Cuts and Jobs Act	(20,271)	—	—
Mexico restructuring	—	(471)	—
Other – net	(245)	(400)	(720)
Total	\$(14,708)	\$6,479	\$7,005
Effective Tax Rate	(97.2)%	32.7%	33.9%

NOTE 12. PENSION AND POSTRETIREMENT BENEFITS

Pension Benefits and Postretirement Benefits

Substantially all of our U.S. management employees hired before January 1, 2015 are covered by one of our noncontributory pension programs. The vast majority of domestic nonmanagement employees, including those hired after 2015, also participate in our noncontributory

pension programs. Management participants generally receive benefits under either cash balance pension programs that include annual or monthly credits based on salary as well as interest credits, or a traditional pension formula (i.e., a stated percentage of employees' adjusted career income). Nonmanagement employees' pension benefits are generally calculated using one of two formulas: a flat dollar amount applied to years of service according to job classification or a cash balance plan with negotiated annual pension band credits as well as interest credits. Most nonmanagement employees can elect to receive their pension benefits in either a lump sum payment or an annuity.

We also provide a variety of medical, dental and life insurance benefits to certain retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits.

Obligations and Funded Status

For defined benefit pension plans, the benefit obligation is the "projected benefit obligation," the actuarial present value, as of our December 31 measurement date, of all benefits attributed by the pension benefit formula to employee service rendered to that date. The amount of benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees and their beneficiaries and average years of service rendered. It is measured based on assumptions concerning future interest rates and future employee compensation levels.

For postretirement benefit plans, the benefit obligation is the "accumulated postretirement benefit obligation," the actuarial present value as of measurement date of all future benefits attributed under the terms of the postretirement benefit plan to employee service.

The following table presents the change in the projected benefit obligation for the years ended December 31:

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Benefit obligation at beginning of year	\$56,183	\$55,464	\$26,027	\$27,898
Service cost – benefits earned during the period	1,128	1,112	138	192
Interest cost on projected benefit obligation	1,936	1,980	809	972
Amendments	48	(206)	(1,807)	(600)
Actuarial (gain) loss	3,696	1,485	630	(529)
Special termination benefits	3	—	1	—
Benefits paid	(3,705)	(3,614)	(1,739)	(1,941)
Plan transfers	5	(38)	—	35
Benefit obligation at end of year	\$59,294	\$56,183	\$24,059	\$26,027

The following table presents the change in the fair value of plan assets for the years ended December 31 and the plans' funded status at December 31:

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Fair value of plan assets at beginning of year	\$ 42,610	\$ 42,195	\$ 5,921	\$ 6,671
Actual return on plan assets	5,987	3,123	607	407
Benefits paid ¹	(3,705)	(3,614)	(1,055)	(1,156)
Contributions	566	910	500	—
Plan transfers and other	5	(4)	—	(1)
Fair value of plan assets at end of year ³	45,463	42,610	5,973	5,921
Unfunded status at end of year ²	\$(13,831)	\$(13,573)	\$(18,086)	\$(20,106)

¹ At our discretion, certain postretirement benefits may be paid from AT&T cash accounts, which does not reduce Voluntary Employee Benefit Association (VEBA) assets. Future benefit payments may be made from VEBA trusts and thus reduce those asset balances.

² Funded status is not indicative of our ability to pay ongoing pension benefits or of our obligation to fund retirement trusts. Required pension funding is determined in accordance with the Employee Retirement Income Security Act of 1974, as amended (ERISA) and applicable regulations.

³ Net assets available for pension benefits were \$54,618 at December 31, 2017 and \$51,087 at December 31, 2016 and include the preferred equity interest in AT&T Mobility II LLC discussed below, which was valued at \$9,155 and \$8,477, respectively.

In 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC, the primary holding company for our wireless business, to the trust used to pay pension benefits under our qualified pension plans. The preferred equity interest was valued at \$9,155 at December 31, 2017. The trust is entitled to receive cumulative cash distributions of \$560 per annum, which will be distributed quarterly in equal amounts and will be accounted for as contributions. We distributed \$560 to the trust during 2017. So long as we make the distributions, we will have no limitations on our ability to declare a dividend, or repurchase shares. This preferred equity interest is a plan asset under ERISA and is recognized as such in the plan's separate financial statements. However, because the preferred equity interest is not unconditionally transferable to an unrelated party (see Note 14), it is not reflected in plan assets in our consolidated financial statements and instead has been eliminated in consolidation. The preferred equity interest is not transferable by the trust except through its put and call features. In September 2017, AT&T notified the trust and the fiduciary of the preferred equity interest that AT&T committed that it would not exercise its call option of the preferred interest until at least September 9, 2022.

At the time of the contribution of the preferred equity interest, we made an additional cash contribution of \$175 and agreed to annual cash contributions of \$175 no later than the due date for our federal income tax return for each of 2014, 2015 and 2016. During 2016, we accelerated the final contribution and completed our obligation with a \$350 cash payment to the trust. These contributions combined with our existing pension assets are in excess of 90% of the pension obligation at December 31, 2017.

As noted above, this preferred equity interest represents a plan asset of our pension trust, which is recognized in the separate financial statements of our pension plan as a qualified plan asset for funding purposes. The following table presents a reconciliation of our pension plan assets recognized in the consolidated financial statements of the Company with the net assets available for benefits included in the separate financial statements of the pension plan at December 31:

	2017	2016
Plan assets recognized in the consolidated financial statements	\$45,463	\$42,610
Preferred equity interest in Mobility	9,155	8,477
Net assets available for benefits	\$54,618	\$51,087

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Amounts recognized on our consolidated balance sheets at December 31 are listed below:

	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Current portion of employee benefit obligation ¹	\$ —	\$ —	\$ (1,585)	\$ (1,644)
Employee benefit obligation ²	(13,831)	(13,573)	(16,501)	(18,462)
Net amount recognized	\$ (13,831)	\$ (13,573)	\$ (18,086)	\$ (20,106)

¹ Included in "Accounts payable and accrued liabilities."

² Included in "Postemployment benefit obligation."

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was \$57,488 at December 31, 2017, and \$54,538 at December 31, 2016.

Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

Periodic Benefit Costs

Our combined net pension and postretirement cost (credit) recognized as operating expenses in our consolidated statements of income was \$155, \$303 and \$(2,821) for the years ended December 31, 2017, 2016 and 2015. A portion of pension and postretirement benefit costs is capitalized as part of the benefit load on internal construction and capital expenditures, providing a small reduction in the net expense recorded. The following table presents the components of net periodic benefit cost:

	Pension Benefits			Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
Service cost – benefits earned during the period	\$ 1,128	\$ 1,112	\$ 1,212	\$ 138	\$ 192	\$ 222
Interest cost on projected benefit obligation	1,936	1,980	1,902	809	972	967
Expected return on assets	(3,134)	(3,115)	(3,317)	(319)	(355)	(421)
Amortization of prior service credit	(123)	(103)	(103)	(1,466)	(1,277)	(1,278)
Actuarial (gain) loss	844	1,478	(373)	342	(581)	(1,632)
Net pension and postretirement cost (credit)	\$ 651	\$ 1,352	\$ (679)	\$ (496)	\$ (1,049)	\$ (2,142)

Other Changes in Benefit Obligations Recognized in Other Comprehensive Income

The following table presents the after-tax changes in benefit obligations recognized in OCI and the after-tax prior service credits that were amortized from OCI into net periodic benefit costs:

	Pension Benefits			Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
Balance at beginning of year	\$ 575	\$ 512	\$ 575	\$ 5,089	\$ 5,510	\$ 6,257
Prior service (cost) credit	(30)	128	1	1,120	372	45
Amortization of prior service credit	(76)	(65)	(64)	(907)	(793)	(792)
Total recognized in other comprehensive (income) loss	(106)	63	(63)	213	(421)	(747)
Balance at end of year	\$ 469	\$ 575	\$ 512	\$ 5,302	\$ 5,089	\$ 5,510

The estimated prior service credits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year are \$119 (\$90 net of tax) for pension and \$1,558 (\$1,175 net of tax) for postretirement benefits.

Assumptions

In determining the projected benefit obligation and the net pension and postretirement benefit cost, we used the following significant weighted-average assumptions:

	Pension Benefits			Postretirement Benefits		
	2017	2016	2015	2017	2016	2015
Weighted-average discount rate for determining benefit obligation at December 31	3.80%	4.40%	4.60%	3.70%	4.30%	4.50%
Discount rate in effect for determining service cost ¹	4.60%	4.90%	4.60%	4.60%	5.00%	4.60%
Discount rate in effect for determining interest cost ¹	3.60%	3.70%	3.30%	3.40%	3.60%	3.30%
Long-term rate of return on plan assets	7.75%	7.75%	7.75%	5.75%	5.75%	5.75%
Composite rate of compensation increase for determining benefit obligation	3.00%	3.00%	3.10%	3.00%	3.00%	3.10%
Composite rate of compensation increase for determining net cost (benefit)	3.00%	3.10%	3.00%	3.00%	3.10%	3.00%

¹ Weighted-average discount rate in effect from January 1, 2017 through April 30, 2017 was 4.70% for service costs and 3.50% for interest costs, and, from May 1, 2017 through December 31, 2017 was 4.50% for service cost and 3.30% for interest cost.

We recognize gains and losses on pension and postretirement plan assets and obligations immediately in our operating results. These gains and losses are measured annually as of December 31 and accordingly will be recorded during the fourth quarter, unless earlier remeasurements are required. During the second quarter of 2017, a substantive plan change involving the frequency of considering potential health reimbursement account credit increases was communicated to our retirees, which triggered a remeasurement of our postretirement benefit obligation.

Discount Rate Our assumed weighted-average discount rate for pension and postretirement benefits of 3.80% and 3.70% respectively, at December 31, 2017, reflects the hypothetical rate at which the projected benefit obligation could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and corresponding to the related expected durations of future cash outflows. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2017, when compared to the year ended December 31, 2016, we decreased our pension discount rate by 0.60%, resulting in an increase in our pension plan benefit obligation of \$4,609 and decreased our postretirement discount rate 0.60%, resulting in an increase in our postretirement benefit obligation of \$1,605. For the year ended December 31, 2016, we

decreased our pension discount rate by 0.20%, resulting in an increase in our pension plan benefit obligation of \$2,189 and decreased our postretirement discount rates by 0.20%, resulting in an increase in our postretirement benefit obligation of \$906.

We utilize a full yield curve approach in the estimation of the service and interest components of net periodic benefit costs for pension and other postretirement benefits. Under this approach, we apply discounting using individual spot rates from a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date. These spot rates align to each of the projected benefit obligations and service cost cash flows. The service cost component relates to the active participants in the plan, so the relevant cash flows on which to apply the yield curve are considerably longer in duration on average than the total projected benefit obligation cash flows, which also include benefit payments to retirees. Interest cost is computed by multiplying each spot rate by the corresponding discounted projected benefit obligation cash flows. The full yield curve approach reduces any actuarial gains and losses based upon interest rate expectations (e.g., built-in gains in interest cost in an upward sloping yield curve scenario), or gains and losses merely resulting from the timing and magnitude of cash outflows associated with our benefit obligations. Neither the annual measurement of our total benefit obligations nor annual net benefit cost is affected by the full yield curve approach.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Expected Long-Term Rate of Return In 2018, our expected long-term rate of return is 7.00% on pension plan assets and 5.75% on postretirement plan assets. Our expected long-term rate of return on pension plan assets was adjusted to 7.00% for 2018 from 7.75% for 2017 to reflect future plans to shift portfolio allocations to increase the share of fixed income investments and updated capital market assumptions. Our long-term rates of return reflect the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In setting the long-term assumed rate of return, management considers capital markets future expectations, the asset mix of the plans' investment and average historical asset return. Actual long-term returns can, in relatively stable markets, also serve as a factor in determining future expectations. We consider many factors that include, but are not limited to, historical returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisers. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the expected long-term rate of return would cause 2018 combined pension and postretirement cost to increase \$244. However, any differences in the rate and actual returns will be included with the actuarial gain or loss recorded in the fourth quarter when our plans are remeasured.

Composite Rate of Compensation Increase Our expected composite rate of compensation increase cost of 3.00% in 2017 and 2016 reflects the long-term average rate of salary increases.

Mortality Tables At December 31, 2017, we updated our assumed mortality rates to reflect our best estimate of future mortality, which decreased our pension obligation by \$355 and our postretirement obligations by \$95. At December 31, 2016, we updated our assumed mortality rates, which decreased our pension obligation by \$793 and our postretirement obligations by \$227.

Healthcare Cost Trend Our healthcare cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Based on historical experience, updated expectations of healthcare industry inflation and recent

prescription drug cost experience, our 2018 assumed annual healthcare prescription drug cost trend for non-Medicare eligible participants will decrease to our ultimate trend rate of 4.50%, in 2018 and for prescription drug cost for Medicare-eligible participants and medical cost for eligible participants will remain at an assumed annual and ultimate trend rate of 4.50%. This change in assumption decreased our obligation by \$39. In 2017, our assumed annual healthcare prescription drug cost trend rate for non-Medicare eligible participants was 6.50%, trending to our ultimate trend rate of 4.50% in 2025. Medicare-eligible retirees who receive access to retiree health insurance coverage through a private insurance marketplace are not subject to assumed healthcare trend. In addition to the healthcare cost trend in 2017, we assumed an annual 2.50% growth in administrative expenses and an annual 3.00% growth in dental claims.

A one percentage-point change in the assumed combined medical and dental cost trend rate would have the following effects:

	One Percentage- Point Increase	One Percentage- Point Decrease
Increase (decrease) in total of		
service and interest cost components	\$ 34	\$ (30)
Increase (decrease) in accumulated		
postretirement benefit obligation	401	(360)

Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets (real estate and natural resources). The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. As part of our voluntary contribution of the Mobility preferred equity interest, we will contribute \$560 of cash distributions during 2018. We do not have significant ERISA required contributions to our pension plans for 2018.

We maintain VEBA trusts to partially fund postretirement benefits; however, there are no ERISA or regulatory requirements that these postretirement benefit plans be funded annually. In 2017, we made a voluntary contribution of \$500 to one of our VEBA trusts.

The principal investment objectives are to ensure the availability of funds to pay pension and postretirement benefits as they become due under a broad range of future economic scenarios, maximize long-term investment return with an acceptable level of risk based on our pension and postretirement obligations, and diversify broadly across and within the capital markets to insulate asset values against adverse experience in any one market. Each asset class has broadly diversified characteristics. Substantial biases toward any particular investing style or type of

security are sought to be avoided by managing the aggregation of all accounts with portfolio benchmarks. Asset and benefit obligation forecasting studies are conducted periodically, generally every two to three years, or when significant changes have occurred in market conditions, benefits, participant demographics or funded status. Decisions regarding investment policy are made with an understanding of the effect of asset allocation on funded status, future contributions and projected expenses.

The plans' weighted-average asset targets and actual allocations as a percentage of plan assets, including the notional exposure of future contracts by asset categories at December 31, are as follows:

	Pension Assets			Postretirement (VEBA) Assets		
	Target	2017	2016	Target	2017	2016
Equity securities:						
Domestic	20% – 30%	23%	24%	13% – 23%	18%	22%
International	10% – 20%	16	15	10% – 20%	15	19
Fixed income securities	35% – 45%	41	39	35% – 45%	40	38
Real assets	6% – 16%	10	11	0% – 6%	1	1
Private equity	4% – 14%	10	11	0% – 7%	2	2
Other	0% – 5%	—	—	20% – 30%	24	18
Total		100%	100%		100%	100%

At December 31, 2017, AT&T securities represented less than 0.5% of assets held by our pension trust and 4% of assets (primarily common stock) held by our VEBA trusts included in these financial statements.

Investment Valuation

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date.

Investments in securities traded on a national securities exchange are valued at the last reported sales price on the final business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Shares of registered investment companies are valued based on quoted market prices, which represent the net asset value of shares held at year-end.

Other commingled investment entities are valued at quoted redemption values that represent the net asset values of units held at year-end which management has determined approximates fair value.

Real estate and natural resource direct investments are valued at amounts based upon appraisal reports. Fixed income securities valuation is based upon observable prices for comparable assets, broker/dealer quotes (spreads or prices), or a pricing matrix that derives spreads for each bond based on external market data, including the current credit rating for the bonds, credit spreads to Treasuries for each credit rating, sector add-ons or credits, issue-specific add-ons or credits as well as call or other options.

Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

Non-interest bearing cash and overdrafts are valued at cost, which approximates fair value.

Fair Value Measurements

See Note 10 for a discussion of fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2017:

Pension Assets and Liabilities at Fair Value as of December 31, 2017	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	\$ 96	\$ —	\$ —	\$ 96
Interest bearing cash	7	20	—	27
Foreign currency contracts	—	2	—	2
Equity securities:				
Domestic equities	9,441	—	4	9,445
International equities	4,967	1	—	4,968
Fixed income securities:				
Asset-backed securities	—	479	—	479
Mortgage-backed securities	—	765	—	765
Commercial mortgage-backed securities	—	170	—	170
Collateralized mortgage obligations/REMICs	—	284	—	284
Corporate and other fixed income instruments and funds	48	9,720	2	9,770
Government and municipal bonds	—	5,618	—	5,618
Real estate and real assets	—	—	2,287	2,287
Securities lending collateral	8	2,240	—	2,248
Receivable for variation margin	6	—	—	6
Assets at fair value	14,573	19,299	2,293	36,165
Investments sold short and other liabilities at fair value	(497)	(4)	—	(501)
Total plan net assets at fair value	\$14,076	\$19,295	\$2,293	\$ 35,664
Assets held at net asset value practical expedient				
Private equity funds				4,493
Real estate funds				2,340
Commingled funds				5,142
Total assets held at net asset value practical expedient				11,975
Other assets (liabilities) ¹				(2,176)
Total Plan Net Assets				\$45,463

¹ Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

Postretirement Assets and Liabilities at Fair Value as of December 31, 2017	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 603	\$ 725	\$ —	\$ 1,328
Foreign currencies	8	—	—	8
Equity securities:				
Domestic equities	857	9	—	866
International equities	600	—	—	600
Fixed income securities:				
Asset-backed securities	—	39	2	41
Commercial mortgage-backed securities	—	53	2	55
Mortgage-backed securities	—	271	—	271
Collateralized mortgage obligations	—	91	1	92
Corporate and other fixed income instruments and funds	—	456	—	456
Government and municipal bonds	—	439	—	439
Securities lending collateral	—	120	—	120
Total plan net assets at fair value	\$2,068	\$2,203	\$ 5	\$ 4,276
Assets held at net asset value practical expedient				
Private equity funds				102
Real estate funds				41
Commingled funds				1,750
Total assets held at net asset value practical expedient				1,893
Other assets (liabilities) ¹				(196)
Total Plan Net Assets				\$5,973

¹ Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2017:

Pension Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	\$ 1	\$ 40	\$ 2,273	\$ 2,314
Realized gains (losses)	1	—	(73)	(72)
Unrealized gains (losses)	(2)	1	216	215
Transfers in	—	—	25	25
Transfers out	—	(32)	—	(32)
Purchases	5	—	157	162
Sales	(1)	(7)	(311)	(319)
Balance at end of year	\$ 4	\$ 2	\$2,287	\$2,293

Postretirement Assets	Fixed Income Funds	Total
Balance at beginning of year	\$ 26	\$ 26
Transfers out	(15)	(15)
Purchases	2	2
Sales	(8)	(8)
Balance at end of year	\$ 5	\$ 5

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2016:

Pension Assets and Liabilities at Fair Value as of December 31, 2016	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	\$ 94	\$ —	\$ —	\$ 94
Interest bearing cash	—	77	—	77
Foreign currency contracts	—	7	—	7
Equity securities:				
Domestic equities	8,299	—	—	8,299
International equities	4,389	—	5	4,394
Fixed income securities:				
Asset-backed securities	—	399	—	399
Mortgage-backed securities	—	838	—	838
Commercial mortgage-backed securities	—	208	—	208
Collateralized mortgage obligations/REMICs	—	269	—	269
Corporate and other fixed income instruments and funds	75	8,442	40	8,557
Government and municipal bonds	80	4,889	—	4,969
Real estate and real assets	—	—	2,273	2,273
Securities lending collateral	207	1,977	—	2,184
Receivable for variation margin	8	—	—	8
Purchased options	—	1	—	1
Assets at fair value	13,152	17,107	2,318	32,577
Investments sold short and other liabilities at fair value	(643)	(7)	(4)	(654)
Total plan net assets at fair value	\$12,509	\$17,100	\$2,314	\$31,923
Assets held at net asset value practical expedient				
Private equity funds				4,648
Real estate funds				2,392
Commingled funds				5,721
Total assets held at net asset value practical expedient				12,761
Other assets (liabilities) ¹				(2,074)
Total Plan Net Assets				\$42,610

¹ Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Postretirement Assets and Liabilities at Fair Value as of December 31, 2016	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 175	\$ 593	\$ —	\$ 768
Foreign currencies	6	—	—	6
Equity securities:				
Domestic equities	1,240	9	—	1,249
International equities	834	—	—	834
Fixed income securities:				
Asset-backed securities	—	33	4	37
Commercial mortgage-backed securities	—	108	13	121
Mortgage-backed securities	—	193	—	193
Collateralized mortgage obligations	—	32	2	34
Corporate and other fixed income instruments and funds	—	422	7	429
Government and municipal bonds	20	466	—	486
Securities lending collateral	—	128	—	128
Total plan net assets at fair value	\$2,275	\$1,984	\$26	\$4,285
Assets held at net asset value practical expedient				
Private equity funds				118
Real estate funds				61
Commingled funds				1,667
Total assets held at net asset value practical expedient				1,846
Other assets (liabilities) ¹				(210)
Total Plan Net Assets				\$5,921

¹ Other assets (liabilities) include amounts receivable, accounts payable and net adjustment for securities lending payable.

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2016:

Pension Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	\$ —	\$ 44	\$2,062	\$2,106
Realized gains (losses)	—	(17)	(103)	(120)
Unrealized gains (losses)	3	19	377	399
Transfers in	(4)	—	77	73
Transfers out	—	(2)	—	(2)
Purchases	3	—	65	68
Sales	(1)	(4)	(205)	(210)
Balance at end of year	\$ 1	\$ 40	\$2,273	\$2,314

Postretirement Assets	Fixed Income Funds	Total
Balance at beginning of year	\$ 15	\$ 15
Realized gains (losses)	(2)	(2)
Unrealized gains (losses)	2	2
Transfers in	16	16
Sales	(5)	(5)
Balance at end of year	\$ 26	\$ 26

Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2017. Because benefit payments will depend on future employment and compensation levels; average years employed; average life spans; and payment elections, among other factors, changes in any of these assumptions could significantly affect these expected amounts. The following table provides expected benefit payments under our pension and postretirement plans:

	Pension Benefits	Postretirement Benefits
2018	\$ 4,633	\$1,751
2019	4,191	1,719
2020	4,180	1,707
2021	4,149	1,692
2022	4,063	1,670
Years 2023 – 2027	19,653	7,267

Supplemental Retirement Plans

We also provide certain senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. While these plans are unfunded, we have assets in a designated nonbankruptcy remote trust that are independently managed and used to provide for these benefits. These plans include supplemental pension benefits as well as compensation-deferral plans, some of which include a corresponding match by us based on a percentage of the compensation deferral.

We use the same significant assumptions for the composite rate of compensation increase in determining our projected benefit obligation and the net pension and postemployment benefit cost. Our discount rates of 3.70% at December 31, 2017 and 4.20% at December 31, 2016 were calculated using the same methodologies used in calculating the discount rate for our qualified pension and postretirement benefit plans. The following tables provide the plans' benefit obligations and fair value of assets at December 31 and the components of the supplemental retirement pension benefit cost. The net amounts are recorded as "Other noncurrent liabilities" on our consolidated balance sheets.

The following table provides information for our supplemental retirement plans with accumulated benefit obligations in excess of plan assets at December 31:

	2017	2016
Projected benefit obligation	\$(2,344)	\$(2,378)
Accumulated benefit obligation	(2,285)	(2,314)
Fair value of plan assets	—	—

The following tables present the components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in OCI:

Net Periodic Benefit Cost	2017	2016	2015
Service cost – benefits earned during the period	\$ 13	\$ 12	\$ 9
Interest cost on projected benefit obligation	77	83	77
Amortization of prior service cost (credit)	(1)	(1)	1
Actuarial (gain) loss	126	72	(36)
Net supplemental retirement pension cost	\$215	\$166	\$ 51

Other Changes Recognized in Other Comprehensive Income	2017	2016	2015
Prior service (cost) credit	\$ 1	\$ 1	\$(1)
Amortization of prior service cost (credit)	(1)	(1)	1
Total recognized in other comprehensive (income) loss (net of tax)	\$—	\$—	\$—

The estimated prior service credit for our supplemental retirement plan benefits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year is \$(1).

Deferred compensation expense was \$138 in 2017, \$148 in 2016 and \$122 in 2015. Our deferred compensation liability, included in "Other noncurrent liabilities," was \$1,310 at December 31, 2017, and \$1,273 at December 31, 2016.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Contributory Savings Plans

We maintain contributory savings plans that cover substantially all employees. Under the savings plans, we match in cash or company stock a stated percentage of eligible employee contributions, subject to a specified ceiling. There are no debt-financed shares held by the Employee Stock Ownership Plans, allocated or unallocated.

Our match of employee contributions to the savings plans is fulfilled with purchases of our stock on the open market or company cash. Benefit cost is based on the cost of shares or units allocated to participating employees' accounts and was \$703, \$631 and \$653 for the years ended December 31, 2017, 2016 and 2015.

NOTE 13. SHARE-BASED PAYMENTS

Under our various plans, senior and other management employees and nonemployee directors have received nonvested stock and stock units. We grant performance stock units, which are nonvested stock units, based upon our stock price at the date of grant and award them in the form of AT&T common stock and cash at the end of a three-year period, subject to the achievement of certain performance goals. We treat the cash settled portion of these awards as a liability. We grant forfeitable restricted stock and stock units, which are valued at the market price of our common stock at the date of grant and predominantly vest over a four- or five-year period. We also grant other nonvested stock units and award them in cash at the end of a three-year period, subject to the achievement of certain market based conditions. As of December 31, 2017, we were authorized to issue up to approximately 119 million shares of common stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested stock units) to officers, employees and directors pursuant to these various plans.

We account for our share-based payment arrangements based on the fair value of the awards on their respective grant date, which may affect our ability to fully realize the value shown on our consolidated balance sheets of deferred tax assets associated with compensation expense. We record a valuation allowance when our future taxable income is not expected to be sufficient to recover the asset. Accordingly, there can be no assurance that the current stock price of our common shares will rise to levels sufficient to realize the entire tax benefit currently reflected on our consolidated balance sheets. However, to the extent we generate excess tax benefits (i.e., that additional tax benefits in excess of the deferred taxes associated with compensation expense previously recognized) the potential future impact on income would be reduced.

Our consolidated statements of income include the compensation cost recognized for those plans as operating expenses, as well as the associated tax benefits, which are reflected in the table below:

	2017	2016	2015
Performance stock units	\$395	\$480	\$299
Restricted stock and stock units	90	152	147
Other nonvested stock units	(5)	21	5
Total	\$480	\$653	\$451
Income tax benefit	\$184	\$250	\$172

A summary of the status of our nonvested stock units as of December 31, 2017, and changes during the year then ended is presented as follows (shares in millions):

Nonvested Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2017	31	\$ 35.57
Granted	13	41.17
Vested	(14)	34.70
Forfeited	(1)	37.48
Nonvested at December 31, 2017	29	\$38.35

As of December 31, 2017, there was \$572 of total unrecognized compensation cost related to nonvested share-based payment arrangements granted. That cost is expected to be recognized over a weighted-average period of 2.16 years. The total fair value of shares vested during the year was \$473 for 2017, compared to \$614 for 2016 and \$450 for 2015.

It is our intent to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was \$33 for 2017, \$179 for 2016 and \$46 for 2015.

NOTE 14. STOCKHOLDERS' EQUITY

Stock Repurchase Program From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. Our Board of Directors approved authorizations in both March 2013 and 2014 that allow us to repurchase 300 million shares of our common stock under each program. For the year ended December 31, 2017, we had repurchased approximately 7 million shares for distribution through our employee benefit plans totaling \$279 under the authorizations. At December 31, 2017, we had approximately 388 million shares remaining from these authorizations. For the year ended December 31, 2016, we had repurchased approximately 11 million shares totaling \$444 under the authorizations.

To implement these authorizations, we used open market repurchase programs, relying on Rule 10b5-1 of the Securities Exchange Act of 1934 where feasible.

Dividend Declarations In December 2017, the Company declared an increase in its quarterly dividend to \$0.50 per share of common stock. In October 2016, the Company declared an increase in its quarterly dividend to \$0.49 per share of common stock.

Preferred Equity Interest The preferred equity interest discussed in Note 12 is not transferable by the trust except through its put and call features, and therefore has been eliminated in consolidation. As originally written, after a period of five years from the contribution or, if earlier, the date upon which the pension plan trust is fully funded as determined under GAAP, AT&T has a right to purchase from the pension plan trust some or all of the preferred equity interest at the greater of the fair market value or minimum liquidation value plus any unpaid cumulative dividends. In addition, AT&T will have the right to purchase the preferred equity interest in the event AT&T's ownership of Mobility is less than 50% or there is a transaction that results in the transfer of 50% or more of the pension plan trust's assets to an entity not under common control with AT&T (collectively, a change of control). In September 2017, AT&T notified the trust and the fiduciary of the preferred equity interest that AT&T committed that it would not exercise its call option of the preferred interest until at least September 9, 2022.

The pension plan trust has the right to require AT&T to purchase the preferred equity interest at the greater of their fair market value or minimum liquidation value plus any unpaid cumulative dividends, and in installments, as specified in the contribution agreement upon the occurrence of any of the following: (1) at any time if the ratio of debt to total capitalization of Mobility exceeds that of AT&T, (2) the date on which AT&T Inc. is rated below investment grade for two consecutive calendar quarters, (3) upon a change of control if AT&T does not exercise its purchase option, or (4) at any time after a seven-year period ending in September 2020. In the event AT&T elects or is required to purchase the preferred equity interest, AT&T may elect to settle the purchase price in cash or shares of AT&T common stock or a combination thereof. Because the preferred equity interest was not considered outstanding for accounting purposes at year-end, it did not affect the calculation of earnings per share for any of the periods presented.

NOTE 15. SALES OF EQUIPMENT INSTALLMENT RECEIVABLES

We offer our customers the option to purchase certain wireless devices in installments over a specified period of time and, in many cases, once certain conditions are met, they may be eligible to trade in the original equipment for a new device and have the remaining unpaid balance paid or settled. As of December 31, 2017 and December 31, 2016, gross equipment installment receivables of \$6,079 and \$5,665 were included on our consolidated balance sheets, of which \$3,340 and \$3,425 are notes receivable that are included in "Accounts receivable – net."

In 2014, we entered into an uncommitted agreement pertaining to the sale of equipment installment receivables and related security with Citibank and various other relationship banks as purchasers (collectively, the Purchasers). Under this agreement, we transfer certain receivables to the Purchasers for cash and additional consideration upon settlement of the receivables, referred to as the deferred purchase price. Since 2014, we have made beneficial modifications to the agreement. During 2017, we modified the agreement and entered into a second uncommitted agreement with the Purchasers such that we receive more upfront cash consideration at the time the receivables are transferred to the Purchasers. Additionally, in the event a customer trades in a device prior to the end of the installment contract period, we agree to make a payment to the Purchasers equal to any outstanding remaining installment receivable balance. Accordingly, we record a guarantee obligation to the Purchasers for this estimated amount at the time the receivables are transferred. Under the terms of the agreement, we continue to bill and collect the payments from our customers on behalf of the Purchasers. Since inception, cash proceeds received, net of remittances (excluding amounts returned as deferred purchase price), were \$4,337.

The following table sets forth a summary of equipment installment receivables sold:

	2017	2016	2015
Gross receivables sold	\$8,058	\$7,629	\$7,436
Net receivables sold ¹	7,388	6,913	6,704
Cash proceeds received	5,623	4,574	4,439
Deferred purchase price recorded	2,077	2,368	2,266
Guarantee obligation recorded	215	—	—

¹ Receivables net of allowance, imputed interest and trade-in right guarantees.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The deferred purchase price and guarantee obligation are initially recorded at estimated fair value and subsequently carried at the lower of cost or net realizable value. The estimation of their fair values is based on remaining installment payments expected to be collected and the expected timing and value of device trade-ins. The estimated value of the device trade-ins considers prices offered to us by independent third parties that contemplate changes in value after the launch of a device model. The fair value measurements used for the deferred purchase price and the guarantee obligation are considered Level 3 under the Fair Value Measurement and Disclosure framework (see Note 10).

The following table shows the equipment installment receivables, previously sold to the Purchasers, which we repurchased in exchange for the associated deferred purchase price:

	2017	2016	2015
Fair value of repurchased receivables	\$1,699	\$1,675	\$685
Carrying value of deferred purchase price	1,524	1,638	534
Gain on repurchases ¹	\$ 175	\$ 37	\$151

¹ These gains are included in "Selling, general and administrative" in the consolidated statements of income.

At December 31, 2017 and December 31, 2016, our deferred purchase price receivable was \$2,749 and \$3,090, respectively, of which \$1,781 and \$1,606 are included in "Other current assets" on our consolidated balance sheets, with the remainder in "Other Assets." Our maximum exposure to loss as a result of selling these equipment installment receivables is limited to the total amount of our deferred purchase price and guarantee obligation.

The sales of equipment installment receivables did not have a material impact on our consolidated statements of income or to "Total Assets" reported on our consolidated balance sheets. We reflect the cash flows related to the arrangement as operating activities in our consolidated statements of cash flows because the cash received from the Purchasers upon both the sale of the receivables and the collection of the deferred purchase price is not subject to significant interest rate risk. See Note 1 for discussion of the change in classification of cash receipts on the deferred purchase price from operating activities to investing activities, effective January 1, 2018.

The outstanding portfolio of installment receivables derecognized from our condensed consolidated balance sheets, but which we continue to service, was \$7,446 at December 31, 2017.

NOTE 16. TOWER TRANSACTION

In December 2013, we closed our transaction with Crown Castle International Corp. (Crown Castle) in which Crown Castle gained the exclusive rights to lease and operate 9,048 wireless towers and purchased 627 of our wireless towers for \$4,827 in cash. The leases have various terms with an average length of approximately 28 years. As the leases expire, Crown Castle will have fixed price purchase options for these towers totaling approximately \$4,200, based on their estimated fair market values at the end of the lease terms. We sublease space on the towers from Crown Castle for an initial term of 10 years at current market rates, subject to optional renewals in the future.

We determined our continuing involvement with the tower assets prevented us from achieving sale-leaseback accounting for the transaction, and we accounted for the cash proceeds from Crown Castle as a financing obligation on our consolidated balance sheets. We record interest on the financing obligation using the effective interest method at a rate of approximately 3.9%. The financing obligation is increased by interest expense and estimated future net cash flows generated and retained by Crown Castle from operation of the tower sites, and reduced by our contractual payments. We continue to include the tower assets in "Property, plant and equipment" on our consolidated balance sheets and depreciate them accordingly. At December 31, 2017 and 2016, the tower assets had a balance of \$882 and \$921, respectively. Our depreciation expense for these assets was \$39 for each of 2017, 2016 and 2015.

Payments made to Crown Castle under this arrangement were \$234 for 2017. At December 31, 2017, the future minimum payments under the sublease arrangement are \$239 for 2018, \$244 for 2019, \$248 for 2020, \$253 for 2021, \$258 for 2022, and \$1,794 thereafter.

NOTE 17. FIRSTNET

In March 2017, the First Responder Network Authority (FirstNet) announced its selection of AT&T to build and manage the first nationwide broadband network dedicated to America's first responders. By January 2018, all 56 jurisdictions, including 50 states, the District of Columbia and five U.S. territories, have elected to participate in the network. Under the awarded 25-year agreement, FirstNet will provide 20 MHz of valuable telecommunications spectrum and success-based payments of \$6,500 over the next five years to support network buildout. We expect to spend about \$40,000, in part recoverable from FirstNet, over the life of the 25-year contract to build, operate and maintain the network. The spectrum provides priority use to first responders, which are included as wireless subscribers and contribute to wireless revenues. As allowed under the agreement, excess capacity on the spectrum is used for any of AT&T's subscriber base.

Under the agreement, we are required to construct a network that achieves coverage and nationwide interoperability requirements. We have a contractual commitment to make sustainability payments of \$18,000 over the 25-year contract. These sustainability payments represent our commitment to fund FirstNet's operating expenses and future reinvestments in the network which we will own and operate. FirstNet has a statutory requirement to reinvest funds that exceed the agency's operating expenses, which are anticipated to be in the \$75-\$100 range annually, and when including increases for inflation, we expect to be in the \$3,000 or less range over the life of the 25-year contract. Being subject to federal acquisition rules, FirstNet is prohibited from contractually committing to a specific vendor for future network reinvestment. However, it is highly probable that AT&T will receive substantially all of the funds reinvested into the network since AT&T will own and operate the infrastructure and have exclusive rights to use the spectrum as all states have opted in. After FirstNet's operating expenses are paid, we anticipate that the remaining amount, expected to be in the \$15,000 range, will be reinvested into the network.

At December 31, 2017, the future sustainability payments under the agreement are \$240 for 2018, \$120 for 2019, 2020, and 2021, \$195 for 2022 and \$17,205 thereafter.

Amounts paid to FirstNet which are not returned to AT&T to be reinvested into our network will be expensed in the period paid. In the event FirstNet does not reinvest any funds to construct, operate, improve and maintain this network, our maximum exposure to loss is the total amount of the sustainability payments, which would be reflected in higher expense.

The \$6,500 of initial funding from FirstNet is contingent on the achievement of six operating capability milestones and certain first responder subscriber adoption targets. These milestones are based on coverage objectives of the first responder network during the construction period, which is expected to be over five years, and subscriber adoption targets. Funding payments to be received from FirstNet are reflected as a reduction from the costs capitalized in the construction of the network, and, as appropriate, a reduction of associated operating expenses.

As of December 31, 2017, we have completed certain task orders related to the construction of the network and have collected \$328 to date. We have reflected these amounts as a reduction to the costs incurred to complete the task orders. We anticipate collecting the remainder of the \$6,500 from FirstNet as we achieve milestones set out by FirstNet over the next five years.

NOTE 18. CONTINGENT LIABILITIES

We are party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. In evaluating these matters on an ongoing basis, we take into account amounts already accrued on the balance sheet. In our opinion, although the outcomes of these proceedings are uncertain, they should not have a material adverse effect on our financial position, results of operations or cash flows.

We have contractual obligations to purchase certain goods or services from various other parties. Our purchase obligations are expected to be approximately \$10,074 in 2018, \$12,331 in total for 2019 and 2020, \$7,003 in total for 2021 and 2022 and \$5,831 in total for years thereafter.

See Note 10 for a discussion of collateral and credit-risk contingencies.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

NOTE 19. ADDITIONAL FINANCIAL INFORMATION

	December 31,		
	2017	2016	2015
Consolidated Balance Sheets			
Current customer fulfillment costs (included in Other current assets)	\$ 3,877	\$ 3,398	
Accounts payable and accrued liabilities:			
Accounts payable	\$24,439	\$22,027	
Accrued payroll and commissions	2,284	2,450	
Current portion of employee benefit obligation	1,585	1,644	
Accrued interest	2,661	2,023	
Other	3,501	2,994	
Total accounts payable and accrued liabilities	\$34,470	\$31,138	
Consolidated Statements of Income	2017	2016	2015
Advertising expense	\$3,772	\$ 3,768	\$ 3,632
Interest expense incurred	\$7,203	\$ 5,802	\$ 4,917
Capitalized interest	(903)	(892)	(797)
Total interest expense	\$6,300	\$ 4,910	\$ 4,120
Consolidated Statements of Cash Flows	2017	2016	2015
Cash paid during the year for:			
Interest	\$6,622	\$ 5,696	\$ 4,822
Income taxes, net of refunds	2,006	3,721	1,851

No customer accounted for more than 10% of consolidated revenues in 2017, 2016 or 2015.

Labor Contracts As of January 31, 2018, we employed approximately 252,000 persons. Approximately 46% of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers (IBEW) or other unions. Contracts covering approximately 23,000 will expire during 2018, including approximately 10,000 traditional wireline

employees in our five-state Midwest region and approximately 10,000 mobility employees in our nine-state Southeast region. After expiration of the current agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached.

NOTE 20. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables represent our quarterly financial results:

	2017 Calendar Quarter				Annual
	First	Second ¹	Third	Fourth ^{1,2}	
Total Operating Revenues	\$39,365	\$39,837	\$39,668	\$41,676	\$160,546
Operating Income	6,864	7,323	6,403	359	20,949
Net Income	3,574	4,014	3,123	19,136	29,847
Net Income Attributable to AT&T	3,469	3,915	3,029	19,037	29,450
Basic Earnings Per Share Attributable to AT&T ³	\$ 0.56	\$ 0.63	\$ 0.49	\$ 3.08	\$ 4.77
Diluted Earnings Per Share Attributable to AT&T ³	\$ 0.56	\$ 0.63	\$ 0.49	\$ 3.08	\$ 4.76
Stock Price					
High	\$ 43.02	\$ 41.69	\$ 39.41	\$ 39.51	
Low	40.61	37.46	35.59	32.86	
Close	41.55	37.73	39.17	38.88	

¹ Includes actuarial gains and losses on pension and postretirement benefit plans (Note 12).

² Includes an asset abandonment charge (Note 6) and the impact of federal corporate income tax reform (Note 11).

³ Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

	2016 Calendar Quarter				Annual
	First	Second	Third	Fourth ¹	
Total Operating Revenues	\$40,535	\$40,520	\$40,890	\$41,841	\$163,786
Operating Income	7,131	6,560	6,408	4,248	24,347
Net Income	3,885	3,515	3,418	2,515	13,333
Net Income Attributable to AT&T	3,803	3,408	3,328	2,437	12,976
Basic Earnings Per Share Attributable to AT&T ²	\$ 0.62	\$ 0.55	\$ 0.54	\$ 0.39	\$ 2.10
Diluted Earnings Per Share Attributable to AT&T ²	\$ 0.61	\$ 0.55	\$ 0.54	\$ 0.39	\$ 2.10
Stock Price					
High	\$ 39.45	\$ 43.21	\$ 43.47	\$ 42.73	
Low	33.51	37.86	39.71	36.13	
Close	39.17	43.21	40.61	42.53	

¹ Includes an actuarial loss on pension and postretirement benefit plans (Note 12) and asset impairment charges (Note 6) and changes in accounting estimates for network asset lives and salvage values, and customer fulfillment costs.

² Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles. The integrity and objectivity of the data in these financial statements, including estimates and judgments relating to matters not concluded by year end, are the responsibility of management, as is all other information included in the Annual Report, unless otherwise indicated.

The financial statements of AT&T Inc. (AT&T) have been audited by Ernst & Young LLP, Independent Registered Public Accounting Firm. Management has made available to Ernst & Young LLP all of AT&T's financial records and related data, as well as the minutes of stockholders' and directors' meetings. Furthermore, management believes that all representations made to Ernst & Young LLP during its audit were valid and appropriate.

Management maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by AT&T is recorded, processed, summarized, accumulated and communicated to its management, including its principal executive and principal financial officers, to allow timely decisions regarding required disclosure, and reported within the time periods specified by the Securities and Exchange Commission's rules and forms.

Management also seeks to ensure the objectivity and integrity of its financial data by the careful selection of its managers, by organizational arrangements that provide an appropriate division of responsibility and by communication programs aimed at ensuring that its policies, standards and managerial authorities are understood throughout the organization.

The Audit Committee of the Board of Directors meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their respective responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet alone with the Audit Committee and have access to the Audit Committee at any time.

Assessment of Internal Control

The management of AT&T is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934. AT&T's internal control system was designed to provide reasonable assurance to the company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

AT&T management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2017. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework* (2013 framework). Based on its assessment, AT&T management believes that, as of December 31, 2017, the company's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report on the company's internal control over financial reporting.



Randall Stephenson
Chairman of the Board,
Chief Executive Officer and President



John J. Stephens
Senior Executive Vice President and
Chief Financial Officer

To the Stockholders and the Board of Directors of AT&T Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

We have served as the Company's auditor since 1999.

Dallas, Texas
February 20, 2018

To the Stockholders and the Board of Directors of AT&T Inc.

Opinion on Internal Control over Financial Reporting

We have audited AT&T Inc.'s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, AT&T Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 consolidated financial statements of the Company and our report dated February 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

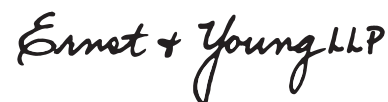
We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style script.

Dallas, Texas
February 20, 2018

AT&T Inc. Board of Directors

Randall L. Stephenson, 57 ⁽⁴⁾



Chairman of the Board,
Chief Executive Officer and President
AT&T Inc.
Director since 2005

Background: Telecommunications

Matthew K. Rose, 58 ^(3,4,5)



Lead Director
Chairman of the Board
and Chief Executive Officer
Burlington Northern Santa Fe, LLC
Director since 2010

Background: Freight transport

Samuel A. Di Piazza, Jr, 67 ^(1,4,6)



Retired Global Chief Executive Officer
PricewaterhouseCoopers International
Limited
Director since 2015

DIRECTV Director 2010–2015

Background: Public accounting

Richard W. Fisher, 68 ^(2,3)



Former President and
Chief Executive Officer
Federal Reserve Bank
of Dallas

Director since 2015

Background: Finance, trade, regulatory

Scott T. Ford, 55 ^(2,4,5)



Member and Chief Executive Officer
Westrock Group, LLC
Director since 2012

Background: Telecommunications

Glenn H. Hutchins, 62 ^(2,6)



Co-Founder
North Island
Co-Founder
Silver Lake

Director since 2014

Background: Technology, public policy

William E. Kennard, 61 ^(3,6)



Former U.S. Ambassador to the
European Union
Former Chairman of the Federal
Communications Commission

Director since 2014

Background: Law, telecommunications,
public policy

Michael B. McCallister, 65 ^(1,5)



Retired Chairman of the Board
and Chief Executive Officer
Humana Inc.
Director since 2013

Background: Health care

Beth E. Mooney, 63 ^(2,3)



Chairman and Chief Executive Officer
KeyCorp
Director since 2013
Background: Banking

Joyce M. Roché, 70 ^(3,4,5)



Retired President and
Chief Executive Officer
Girls Incorporated
Director since 1998

Southern New England Telecommunications

Director 1997–1998

Background: Marketing

Cynthia B. Taylor, 56 ^(1,6)



President and Chief Executive Officer
Oil States International, Inc.
Director since 2013

Background: Public accounting,
oil and gas

Laura D'Andrea Tyson, Ph.D., 70 ^(1,4,6)



Distinguished Professor of the
Graduate School, Haas School
of Business
Chair, Blum Center for Developing

Economies Board of Trustees

University of California, Berkeley

Director since 1999

Ameritech Director 1997–1999

Background: Economics, education, public policy

Geoffrey Y. Yang, 58 ^(2,5)



Founding Partner
and Managing Director
Redpoint Ventures
Director since 2016

Background: Technology, media, entertainment

Committees of the Board:

- (1) Audit
- (2) Corporate Development and Finance
- (3) Corporate Governance and Nominating
- (4) Executive
- (5) Human Resources
- (6) Public Policy and Corporate Reputation

(Information is provided
as of February 20, 2018.)

Executive Officers of AT&T Inc. and Its Affiliates

Randall Stephenson, 57



Chairman, Chief Executive Officer
and President

Bill Blase, Jr., 62



Senior Executive Vice President –
Human Resources

John Donovan, 57



Chief Executive Officer
AT&T Communications, LLC

David Huntley, 59



Senior Executive Vice President
and Chief Compliance Officer

Lori Lee, 52



Chief Executive Officer –
AT&T International and
Global Marketing Officer

Brian Lesser, 43



Chief Executive Officer –
AT&T Advertising and Analytics
AT&T Services, Inc.

David McAtee II, 49



Senior Executive Vice President
and General Counsel

Robert Quinn, Jr., 57



Senior Executive Vice President –
External and Legislative Affairs
AT&T Services, Inc.

John Stankey, 55



Senior Executive Vice President –
AT&T/Time Warner Merger
Integration Planning
AT&T Services, Inc.

John Stephens, 58



Senior Executive Vice President
and Chief Financial Officer

(Information is provided
as of February 20, 2018.)