Information Regarding U.S. Federal Income Tax Calculations in connection with the Acquisition of DIRECTV by AT&T

The following information is provided to illustrate how to determine taxable gain on DIRECTV stock as well as tax basis in AT&T shares received in the acquisition of DIRECTV by AT&T.

THIS INFORMATION IS FOR ILLUSTRATIVE PURPOSES AND NOT INTENDED AS TAX ADVICE. YOU SHOULD CONSULT YOUR TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE TRANSACTION UNDER U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS.

As a DIRECTV shareholder, you are entitled to receive for each share of DIRECTV common stock an amount equal to $28.50 in cash, and 1.892 shares of AT&T common stock, which represents the exchange ratio determined per the terms of the transaction. You may also receive cash in lieu of a fractional share of stock based on a per share price of $35.14. AT&T common stock is traded on the NYSE under the trading symbol “T”.

Below are two examples to help you understand the calculations based on a hypothetical cost basis and number of DTV shares.

Examples for two shareholders with different historical tax basis, each in a single block of 100 DIRECTV shares that were exchanged for both cash ($28.50 per share) and AT&T stock per the terms of the transaction using AT&T stock with a value of $34.69 per share.

The following information is used to calculate the gain in steps 1 through 4 of this example:	**Shareholder A**	**Shareholder B**
Tax basis in DIRECTV shares exchanged:		
Number of hypothetical DIRECTV shares exchanged	100	100
Hypothetical tax basis per share	$43.00	$85.00
Total hypothetical tax basis in DIRECTV shares exchanged	**$4,300.00**	**$8,500.00**
Cash received in exchange for DIRECTV shares ($28.50 x 100 shares)	**$2,850.00**	**$2,850.00**
AT&T shares received in exchange for DIRECTV shares:		
Exchange ratio determined per the terms of the transaction	1.892	1.892
Number of DIRECTV shares exchanged	100	100
Number of AT&T shares received	189.200	189.200
Value of AT&T shares received @ $34.69 per share	**$6,563.35**	**$6,563.35**
Fractional shares of AT&T received	0.200	0.200
Cash received for fractional shares @ $35.14 per share	**$7.03**	**$7.03**

Step 1 - Total gain or loss realized in the exchange		
Cash received for shares exchanged	$2,850.00	$2,850.00
Value of AT&T shares received	$6,563.35	$6,563.35
Total value of cash and stock received	$9,413.35	$9,413.35
Less: Tax basis of DIRECTV shares exchanged	($4,300.00)	($8,500.00)
Total gain realized	**$5,113.35**	**$913.35**

Step 2 - Taxable gain recognized in the exchange		
Total gain realized	$5,113.35	$913.35
Total cash received	$2,850.00	$2,850.00
Taxable gain (lesser of both amounts)	**$2,850.00**	**$913.35**

Step 3 - Tax basis in AT&T shares received		
Tax basis of DIRECTV shares exchanged	$4,300.00	$8,500.00
Less: Total cash received	($2,850.00)	($2,850.00)
Plus: Amount reported as taxable income	$2,850.00	$913.35
Tax basis in AT&T shares received	**$4,300.00**	**$6,563.35**
Number of AT&T shares received	189.200	189.200
Per share tax basis in AT&T shares received	**$22.727**	**$34.690**

Step 4 - Taxable gain or loss recognized on AT&T fractional shares		
Per share tax basis in AT&T shares received	$22.727	$34.690
AT&T fractional shares received in cash	0.200	0.200
Tax basis in AT&T fractional shares in cash	$4.55	$6.94
Cash received in lieu of AT&T fractional shares	$7.03	$7.03
Less: Tax basis of AT&T fractional shares	($4.55)	($6.94)
Taxable gain or loss recognized on AT&T fractional shares	**$2.48**	**$0.09**

Summary		
Cash received in exchange for DIRECTV shares	$2,850.00	$2,850.00
Cash received in lieu of fractional shares	$7.03	$7.03
Total cash received	**$2,857.03**	**$2,857.03**
Taxable gain on exchange of DIRECTV shares for cash	$2,850.00	$913.35
Taxable gain attributable to cash received in lieu of AT&T fractional shares	$2.48	$0.09
Total taxable gain recognized upon closing of transaction	**$2,852.48**	**$913.44**
AT&T shares received	189	189
Per share tax basis in AT&T shares received	**$22.727**	**$34.690**
Total basis in AT&T shares received	**$4,295.40**	**$6,556.41**

FOR MORE INFORMATION ON TAX CONSEQUENCES OF THE TRANSACTION, REFER TO THE FOLLOWING EXCERPT FROM THE FORM S-4 FILED BY AT&T INC. WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION ON JULY 1, 2014.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

This section describes the material United States federal income tax consequences of the merger to U.S. holders of DIRECTV common stock who exchange shares of DIRECTV common stock for a combination of shares of AT&T common stock and cash pursuant to the merger. The following discussion is based on the Internal Revenue Code, existing and proposed regulations thereunder and published rulings and decisions, all as currently in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. Any such change could affect the continuing validity of this discussion.

For purposes of this discussion, a U.S. holder is a beneficial owner of DIRECTV common stock who for United States federal income tax purposes is:

- a citizen or resident of the United States;
- a corporation, or an entity treated as a corporation, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- a trust that (1) is subject to (A) the primary supervision of a court within the United States and (B) the authority of one or more United States persons to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person; or
- an estate that is subject to United States federal income tax on its income regardless of its source.

If a partnership (including for this purpose any entity or arrangement treated as a partnership for United States federal income tax purposes) holds DIRECTV common stock, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding DIRECTV common stock, you should consult your tax advisor regarding the tax consequences of the merger.

This discussion addresses only those DIRECTV stockholders that hold their DIRECTV common stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code (generally, property held for investment), and does not address all of the United States federal income tax consequences that may be relevant to particular DIRECTV stockholders in light of their individual circumstances or to DIRECTV stockholders that are subject to special rules, such as:

- financial institutions;
- pass-through entities or investors in pass-through entities;
- insurance companies;
- tax-exempt organizations;
- dealers in securities;
- traders in securities that elect to use a mark-to-market method of accounting;
- persons who exercise dissenters' rights;
- persons that hold DIRECTV common stock as part of a straddle, hedge, constructive sale or conversion transaction;
- persons that purchased or sell their shares of DIRECTV common stock as part of a wash sale;
- certain expatriates or persons that have a functional currency other than the U.S. dollar;
- persons that are not U.S. holders; and
- stockholders who acquired their shares of DIRECTV common stock through the exercise of an employee stock option or otherwise as compensation or through a tax-qualified retirement plan.

In addition, the discussion does not address any alternative minimum tax or any state, local or foreign tax consequences of the merger.

ALL HOLDERS OF DIRECTV COMMON STOCK SHOULD CONSULT THEIR TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF THE ALTERNATIVE MINIMUM TAX AND ANY STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

The obligation of AT&T to complete the merger is conditioned upon the receipt of an opinion from Sullivan & Cromwell LLP, counsel to AT&T, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code based upon representations made by AT&T and DIRECTV. The obligation of DIRECTV to complete the merger is conditioned upon the receipt of an opinion from Weil, Gotshal & Manges LLP, counsel to DIRECTV, to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code based upon representations made by AT&T and DIRECTV. Neither of these opinions is binding on the Internal Revenue Service or the courts. AT&T and DIRECTV have not requested and do not intend to request any ruling from the Internal Revenue Service as to the United States federal income tax consequences of the merger. The following discussion assumes the receipt and accuracy of the opinions described above.

Federal Income Tax Consequences of the Merger. The United States federal income tax consequences of the merger to U.S. holders of DIRECTV common stock are as follows:

- a U.S. holder of DIRECTV common stock will recognize gain (but not loss) in an amount equal to the lesser of (1) the amount by which the sum of the fair market value of the AT&T common stock and cash received by a holder of DIRECTV common stock exceeds such holder's tax basis in its DIRECTV common stock, and (2) the amount of cash received by such holder of DIRECTV common stock (in each case excluding any cash received instead of fractional share interests in AT&T common stock, which shall be treated as discussed below);

- the aggregate tax basis of the AT&T common stock received in the merger (including any fractional share interests in AT&T common stock deemed received and exchanged for cash, as discussed below) will be the same as the aggregate tax basis of the DIRECTV common stock for which it is exchanged, decreased by the amount of cash received in the merger (excluding any cash received instead of fractional share interests in AT&T common stock), and increased by the amount of gain recognized on the exchange (regardless of whether such gain is classified as capital gain or dividend income, as discussed below), excluding any gain recognized with respect to fractional share interests in AT&T common stock for which cash is received, as discussed below; and

- the holding period of AT&T common stock received in exchange for shares of DIRECTV common stock (including any fractional share interests in AT&T common stock deemed received and exchanged for cash, as discussed below) will include the holding period of the DIRECTV common stock for which it is exchanged.

If holders of DIRECTV common stock acquired different blocks of DIRECTV common stock at different times or at different prices, any gain will be determined separately with respect to each block of DIRECTV common stock and such holders' basis and holding period in their shares of AT&T common stock may be determined with reference to each block of DIRECTV common stock. Any such holders should consult their tax advisors regarding the manner in which cash and AT&T common stock received in the exchange should be allocated among different blocks of DIRECTV common stock and with respect to identifying the bases or holding periods of the particular shares of AT&T common stock received in the merger.

Gain that holders of DIRECTV common stock recognize in connection with the merger generally will constitute capital gain and will constitute long-term capital gain if such holders have held their DIRECTV common stock for more than one year as of the date of the merger. Long-term capital gain of certain non-corporate holders of DIRECTV common stock, including individuals, is generally taxed at preferential rates. In some cases, if a holder actually or constructively owns AT&T common stock other than AT&T common stock received pursuant to the merger, the recognized gain could be treated as having the effect of a distribution of a dividend under the tests set forth in Section 302 of the Internal Revenue Code, in which case such gain would be treated as dividend income. Because the possibility of dividend treatment depends upon each holder's particular circumstances, including the application of constructive ownership rules, holders of DIRECTV common stock should consult their tax advisors regarding the application of the foregoing rules to their particular circumstances.

Medicare Net Investment Income Tax. A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, is subject to a 3.8% tax on the lesser of (1) the U.S. holder's "net investment income" (or "undistributed net investment income" in the case of an estate or trust) for the relevant taxable year and (2) the excess of the U.S. holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between $125,000 and $250,000, depending on the individual's circumstances). For this purpose, net investment income generally includes dividend income and net gain recognized with respect to a disposition of shares of DIRECTV common stock pursuant to the merger, unless such dividend income or net gain is derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. holder that is an individual, estate or trust, please consult your tax advisors regarding the applicability of the Medicare tax with respect to your disposition of shares of DIRECTV common stock pursuant to the merger.

Cash Received Instead of a Fractional Share of AT&T Common Stock. A holder of DIRECTV common stock who receives cash instead of a fractional share of AT&T common stock will generally be treated as having received the fractional share pursuant to the merger and then as having sold to AT&T that fractional share of AT&T common stock for cash. As a result, a holder of DIRECTV common stock will generally recognize gain or loss equal to the difference between the amount of cash received and the tax basis allocated to such fractional share of AT&T common stock. Gain or loss recognized with respect to cash received in lieu of a fractional share of AT&T common stock will generally be capital gain or loss, and will be long-term capital gain or loss if, as of the effective time, the holding period for such shares is greater than one year. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding. Payments of cash to a holder of DIRECTV common stock may, under certain circumstances, be subject to information reporting and backup withholding, unless the holder provides proof of an applicable exemption or furnishes its taxpayer identification number, and otherwise complies with all applicable requirements of the backup withholding rules. Any amounts withheld from payments to a holder under the backup withholding rules are not additional tax and will be allowed as a refund or credit against the holder's United States federal income tax liability, provided the required information is timely furnished to the Internal Revenue Service.

The preceding discussion is intended only as a general discussion of material United States federal income tax consequences of the merger. It is not a complete analysis or discussion of all potential tax effects that may be important to you. Thus, you are strongly encouraged to consult your tax advisor as to the specific tax consequences resulting from the merger, including tax return reporting requirements, the applicability and effect of federal, state, local, and other tax laws and the effect of any proposed changes in the tax laws.