AT&T INC. FINANCIAL REVIEW 2018

Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 and for the year ended:	**2018**	2017	2016	2015	2014
Financial Data					
Operating revenues	**$170,756**	$160,546	$163,786	$146,801	$132,447
Operating expenses	**$144,660**	$140,576	$140,243	$126,439	$113,860
Operating income	**$ 26,096**	$ 19,970	$ 23,543	$ 20,362	$ 18,587
Interest expense	**$ 7,957**	$ 6,300	$ 4,910	$ 4,120	$ 3,613
Equity in net income (loss) of affiliates	**$ (48)**	$ (128)	$ 98	$ 79	$ 175
Other income (expense) – net	**$ 6,782**	$ 1,597	$ 1,081	$ 4,371	$ (4,794)
Income tax (benefit) expense	**$ 4,920**	$ (14,708)	$ 6,479	$ 7,005	$ 3,619
Net Income	**$ 19,953**	$ 29,847	$ 13,333	$ 13,687	$ 6,736
Less: Net Income Attributable to Noncontrolling Interest	**$ (583)**	$ (397)	$ (357)	$ (342)	$ (294)
Net Income Attributable to AT&T	**$ 19,370**	$ 29,450	$ 12,976	$ 13,345	$ 6,442
Earnings Per Common Share: Net Income Attributable to AT&T	**$ 2.85**	$ 4.77	$ 2.10	$ 2.37	$ 1.24
Earnings Per Common Share – Assuming Dilution: Net Income Attributable to AT&T	**$ 2.85**	$ 4.76	$ 2.10	$ 2.37	$ 1.24
Cash and cash equivalents	**$ 5,204**	$ 50,498	$ 5,788	$ 5,121	$ 8,603
Total assets	**$531,864**	$444,097	$403,821	$402,672	$296,834
Long-term debt	**$166,250**	$125,972	$113,681	$118,515	$ 75,778
Total debt	**$176,505**	$164,346	$123,513	$126,151	$ 81,834
Capital expenditures[1]	**$ 21,251**	$ 21,550	$ 22,408	$ 20,015	$ 21,433
Dividends declared per common share	**$ 2.01**	$ 1.97	$ 1.93	$ 1.89	$ 1.85
Book value per common share	**$ 26.63**	$ 23.13	$ 20.22	$ 20.12	$ 17.40
Ratio of earnings to fixed charges	**3.42**	2.63	3.59	4.01	2.91
Debt ratio	**47.7%**	53.6%	49.9%	50.5%	47.5%
Net debt ratio	**46.2%**	37.2%	47.5%	48.5%	42.6%
Weighted-average common shares outstanding (000,000)	**6,778**	6,164	6,168	5,628	5,205
Weighted-average common shares outstanding with dilution (000,000)	**6,806**	6,183	6,189	5,646	5,221
End of period common shares outstanding (000,000)	**7,282**	6,139	6,139	6,145	5,187
Number of employees	**268,220**	254,000	268,540	281,450	243,620

[1] Includes FirstNet reimbursements of $1,429 in 2018, $279 in 2017 and $0 in 2016-2014 (see Note 19).

Dollars in millions except per share amounts

OVERVIEW

AT&T Inc. is referred to as "we," "AT&T" or the "Company" throughout this document, and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate worldwide in the telecommunications, media and technology industries. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes (Notes). We completed the acquisition of Time Warner Inc. (Time Warner) on June 14, 2018, and have included its results after that date. In accordance with U.S. generally accepted accounting principles (GAAP), operating results from Time Warner prior to the acquisition are excluded.

We have four reportable segments: (1) Communications, (2) WarnerMedia, (3) Latin America and (4) Xandr. Our segment results presented in Note 4 and discussed below follow our internal management reporting. We analyze our segments based on segment operating contribution, which consists of operating income, excluding acquisition-related costs and other significant items and equity in net income (loss) of affiliates for investments managed within each segment. Each segment's percentage calculation of total segment operating revenue and contribution is derived from our segment results table in Note 4 and may total more than 100 percent due to losses in one or more segments. Percentage increases and decreases that are not considered meaningful are denoted with a dash.

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Operating Revenues					
Communications	**$144,631**	$150,378	$154,232	**(3.8)%**	(2.5)%
WarnerMedia	**18,941**	430	418	**—**	2.9
Latin America	**7,652**	8,269	7,283	**(7.5)**	13.5
Xandr	**1,740**	1,373	1,333	**26.7**	3.0
Corporate and other	**1,191**	1,279	1,731	**(6.9)**	(26.1)
Eliminations and consolidation	**(3,399)**	(1,183)	(1,211)	**—**	2.3
AT&T Operating Revenues	**170,756**	160,546	163,786	**6.4**	(2.0)
Operating Contribution					
Communications	**32,262**	31,685	32,437	**1.8**	(2.3)
WarnerMedia	**5,695**	62	96	**—**	(35.4)
Latin America	**(710)**	(266)	(661)	**—**	59.8
Xandr	**1,333**	1,202	1,233	**10.9**	(2.5)
Segment Operating Contribution	**$ 38,580**	$ 32,683	$ 33,105	**18.0%**	(1.3)%

The ***Communications segment*** accounted for approximately 84% of our 2018 total segment operating revenues compared to 94% in 2017 and 84% of our 2018 total segment operating contribution as compared to 97% in 2017. This segment provides services to businesses and consumers located in the U.S. or in U.S. territories and businesses globally. Our business strategies reflect bundled product offerings that cut across product lines and utilize shared assets. This segment contains the following business units:

- **Mobility** provides nationwide wireless service and equipment.
- **Entertainment Group** provides video, internet and voice communications services to residential customers.
- **Business Wireline** provides advanced IP-based services (referred to as "strategic services"), as well as traditional voice and data services to business customers.

The ***WarnerMedia segment*** accounted for approximately 11% of our 2018 total segment operating revenues and 15% of our 2018 total segment operating contribution. This segment develops, produces and distributes feature films, television, gaming and other content over various physical and digital formats. This segment contains the following business units:

- **Turner** primarily operates multichannel basic television networks and digital properties.
- **Home Box Office** primarily operates multichannel premium pay television services.
- **Warner Bros.** principally produces and distributes television shows, feature films and games.

Dollars in millions except per share amounts

The ***Latin America segment*** accounted for approximately 4% of our 2018 total segment operating revenues compared to 5% in 2017. This segment provides entertainment and wireless services outside of the U.S. This segment contains the following business units:

- **Vrio** provides video services primarily to residential customers using satellite technology.
- **Mexico** provides wireless service and equipment to customers in Mexico.

The ***Xandr segment*** accounted for approximately 1% of our total segment operating revenues in 2018 and 2017 and 3% of our 2018 total segment operating contribution as compared to 4% in 2017. This segment provides advertising services. These services utilize data insights to develop higher-value targeted advertising.

RESULTS OF OPERATIONS

Consolidated Results Our financial results are summarized in the following table. We then discuss factors affecting our overall results for the past three years. Additional analysis is discussed in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2019 in the "Operating Environment and Trends of the Business" section. Percentage increases and decreases that are not considered meaningful are denoted with a dash. Certain prior period amounts have been reclassified to conform to the current period's presentation.

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Operating revenues					
Service	**$152,345**	$145,597	$148,884	**4.6%**	(2.2)%
Equipment	**18,411**	14,949	14,902	**23.2**	0.3
Total Operating Revenues	**170,756**	160,546	163,786	**6.4**	(2.0)
Operating expenses					
Operations and support	**116,230**	116,189	114,396	**—**	1.6
Depreciation and amortization	**28,430**	24,387	25,847	**16.6**	(5.6)
Total Operating Expenses	**144,660**	140,576	140,243	**2.9**	0.2
Operating Income	**26,096**	19,970	23,543	**30.7**	(15.2)
Interest expense	**7,957**	6,300	4,910	**26.3**	28.3
Equity in net income (loss) of affiliates	**(48)**	(128)	98	**62.5**	—
Other income (expense) – net	**6,782**	1,597	1,081	**—**	47.7
Income Before Income Taxes	**24,873**	15,139	19,812	**64.3**	(23.6)
Net Income	**19,953**	29,847	13,333	**(33.1)**	—
Net Income Attributable to AT&T	**$ 19,370**	$ 29,450	$ 12,976	**(34.2)%**	—%

OVERVIEW

Operating revenues increased in 2018 and decreased in 2017. The increase in 2018 was primarily due to our acquisition of Time Warner and growth in our Xandr segment. Partially offsetting the increases was our adoption of a new revenue accounting standard, which included our policy election to record Universal Service Fund (USF) fees on a net basis. Also offsetting revenues were declines in our Communications segment, which continues to experience pressure from developing technology and shifts in customer behavior, partially offset by increased equipment revenues. The decrease in 2017 was attributable to the Communications segment, primarily driven by continued declines in legacy wireline voice and data products, lower wireless service and equipment revenues and waived revenues due to natural disasters. The 2017 declines were partially offset by increased revenue from video and strategic business services and increased sales volume in Mexico.

Operations and support expenses increased in 2018 and 2017. The increase in 2018 was primarily due to business acquisitions in 2018, higher content costs and higher equipment costs related to wireless device sales and upgrades in our Communications segment. The increase was partially offset by our adoption of new accounting rules, which included our policy election to record USF fees on a net basis, and a prior year noncash charge resulting from the abandonment of certain copper assets that will not be necessary to support future network activity due to fiber deployment plans in particular markets (see Note 8). The increase in 2017 was due to annual content cost increases and additional programming costs in our video business and the copper abandonment charge. The increase was partially offset by lower expenses due to our continued focus on cost management, lower equipment expenses, lower selling and commission costs from reduced volumes and lower marketing costs.

Depreciation and amortization expense increased in 2018 and decreased in 2017. Depreciation expense increased $311, or 1.6%, in 2018. The increase was primarily due to the Time Warner acquisition as well as ongoing capital spending for network upgrades and expansion offset by lower expense resulting from our fourth-quarter 2017 abandonment of certain copper network assets. Depreciation expense decreased $895, or 4.3%, in 2017. The decrease was primarily due to our fourth-quarter 2016 change in estimated useful lives and salvage values of certain assets associated with our transition to an IP-based network, which accounted for $845 of the decrease. Also contributing to lower depreciation expenses were network assets becoming fully depreciated. These decreases were partially offset by increases resulting from ongoing capital spending for upgrades and expansion.

Amortization expense increased $3,732 in 2018 primarily due to the amortization of intangibles associated with WarnerMedia. Amortization expense decreased $565 in 2017 due to lower amortization of intangibles for customer lists associated with acquisitions.

Operating income increased in 2018 and decreased in 2017. Our operating margin was 15.3% in 2018, compared to 12.4% in 2017 and 14.4% in 2016.

Interest expense increased in 2018 and 2017, primarily due to our acquisition of Time Warner. The increase in 2018 was primarily due to higher debt balances related to the acquisition, including interest expense on Time Warner notes, and lower capitalized interest associated with our network plans putting spectrum in service. The increase in 2017 was primarily due to higher debt balances in anticipation of closing our acquisition of Time Warner and an increase in average interest rates when compared to the prior year. Financing fees related to pending acquisitions and debt exchange costs also contributed to higher interest expense in 2017.

Equity in net income (loss) of affiliates increased in 2018 and decreased in 2017. The increase in 2018 was primarily due to 2017 losses from our legacy publishing business, which was sold in June 2017, partially offset by the net losses from investments acquired through the purchase of Time Warner. The decrease in 2017 was predominantly due to losses from the aforementioned publishing business. (See Note 9)

Other income (expense) – net increased in 2018 and 2017. The increase in 2018 was primarily due to actuarial gains of $3,412 in 2018 compared to a loss of $1,258 in 2017, and also included gains of $826 on the disposition of our data colocation business and Otter Media Holdings (Otter Media) transaction, and higher interest income on investments held prior to the closing of our Time Warner acquisition. The increase in 2017 was primarily due to increased amortization of prior service credits and lower interest costs associated with benefit plans that were partially offset by higher actuarial remeasurement losses in 2017. The increase also included higher interest and dividend income, which was largely a result of interest on cash held in anticipation of closing our acquisition of Time Warner, and an increase in net gains from the sale of nonstrategic assets and investments.

Income tax expense increased in 2018 and decreased in 2017, primarily driven by the enactment of U.S. corporate tax reform in December 2017, resulting in the remeasurement of our deferred tax obligation using the 21% U.S. federal tax rate from the previous 35% rate. The increase in 2018 was also due in part to increases for tax positions related to prior years offset by income tax benefits related to our foreign investments. Our effective tax rate was 19.8% in 2018, (97.2)% in 2017 and 32.7% in 2016.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act reduced the U.S. federal corporate tax rate from 35% to 21% and implemented a territorial tax system. Accounting Standards Codification (ASC) 740, "Income Taxes," requires that the effects of changes in tax rates and laws be recognized in the period in which the legislation is enacted. As a result, we decreased our 2017 tax expense by $20,271 primarily related to the remeasurement of our net deferred tax liabilities at the new lower federal tax rate, $816 of which represented the change in statutory rates on items deductible in the fourth quarter. The effects related to foreign earnings of the one-time transition tax and new territorial tax system did not create material impacts to the effective tax rate and total tax expense. Also, as a result of the Act, we decreased our 2018 tax expense by $718 primarily related to the measurement period adjustments of our net deferred tax liabilities at the new lower federal tax rate in connection with completing our analysis of the impacts of the Act. (See Note 13)

We expect our effective tax rate in 2019 to be approximately 23% (excluding any one-time items).

Segment Results Our segments are strategic business units that offer different products and services over various technology platforms and/or in different geographies that are managed accordingly. Our segment results presented below follow our internal management reporting. In addition to segment operating contribution, we also evaluate segment performance based on EBITDA and/or EBITDA margin, which is defined as segment operating 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 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.

Dollars in millions except per share amounts

COMMUNICATIONS SEGMENT

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Segment Operating Revenues					
Mobility	**$ 71,344**	$ 71,090	$ 72,587	**0.4%**	(2.1)%
Entertainment Group	**46,460**	49,995	50,660	**(7.1)**	(1.3)
Business Wireline	**26,827**	29,293	30,985	**(8.4)**	(5.5)
Total Segment Operating Revenues	**144,631**	150,378	154,232	**(3.8)**	(2.5)
Segment Operating Contribution					
Mobility	**21,722**	20,204	20,743	**7.5**	(2.6)
Entertainment Group	**4,713**	5,471	5,898	**(13.9)**	(7.2)
Business Wireline	**5,827**	6,010	5,796	**(3.0)**	3.7
Total Segment Operating Contribution	**$ 32,262**	$ 31,685	$ 32,437	**1.8%**	(2.3)%

Operating revenues decreased in 2018 and 2017, driven by declines in our Entertainment Group and Business Wireline business units, partially offset by increases in our Mobility business unit in 2018. The decrease in 2018 was primarily due to our policy election to no longer include USF fees in revenues, shifts to over-the-top (OTT) video offerings and continued declines in legacy voice and data products and linear video, partially offset by higher wireless service and equipment revenues from increased postpaid smartphone sales. The decrease in 2017 was driven by declines in legacy voice and data products, shifts to unlimited wireless plans and lower wireless handset sales and upgrades, partially offset by growth in advanced IP services.

In the first half of 2018, we continued to see pressure from legacy services revenues and from wireless service revenues as we lapped the first year of offering unlimited data plans. Since our unlimited plans have now been in effect for over a year, service revenues on a comparable basis have shown improvements, which we expect to continue in 2019.

Operating contribution increased in 2018 and decreased in 2017. The 2018 contribution was positively impacted by new revenue accounting rules and improvement in our Mobility business unit, partially offset by declines in our Entertainment Group and Business Wireline business units. Our 2017 contribution decreased due to declines in our Mobility and Entertainment Groups. Our Communications segment operating income margin was 22.3% in 2018, 21.1% in 2017 and 21.0% in 2016.

Communications Business Unit Discussion

Mobility Results

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Operating revenues					
Service	**$54,933**	$57,696	$59,152	**(4.8)%**	(2.5)%
Equipment	**16,411**	13,394	13,435	**22.5**	(0.3)
Total Operating Revenues	**71,344**	71,090	72,587	**0.4**	(2.1)
Operating expenses					
Operations and support	**41,266**	42,871	43,567	**(3.7)**	(1.6)
Depreciation and amortization	**8,355**	8,015	8,277	**4.2**	(3.2)
Total Operating Expenses	**49,621**	50,886	51,844	**(2.5)**	(1.8)
Operating Income	**21,723**	20,204	20,743	**7.5**	(2.6)
Equity in Net Income (Loss) of Affiliates	**(1)**	—	—	**—**	—
Operating Contribution	**$21,722**	$20,204	$20,743	**7.5%**	(2.6)%

The following tables highlight other key measures of performance for Mobility:

(in 000s)	2018	2017	2016	Percent Change 2018 vs. 2017	Percent Change 2017 vs. 2016
Wireless Subscribers					
Postpaid smartphones	**60,712**	59,874	59,096	**1.4%**	1.3%
Postpaid feature phones and data-centric devices	**16,177**	17,636	18,276	**(8.3)**	(3.5)
Postpaid	**76,889**	77,510	77,372	**(0.8)**	0.2
Prepaid	**17,000**	15,335	13,536	**10.9**	13.3
Branded	**93,889**	92,845	90,908	**1.1**	2.1
Reseller	**7,782**	9,366	11,949	**(16.9)**	(21.6)
Connected devices[1]	**51,335**	38,991	31,591	**31.7**	23.4
Total Wireless Subscribers	**153,006**	141,202	134,448	**8.4**	5.0
Branded Smartphones	**75,384**	72,924	70,817	**3.4**	3.0
Smartphones under our installment programs at end of period	**31,418**	32,438	30,688	**(3.1)%**	5.7%

[1] Includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems. Excludes postpaid tablets.

(in 000s)	2018	2017	2016	Percent Change 2018 vs. 2017	Percent Change 2017 vs. 2016
Wireless Net Additions[1]					
Postpaid[4]	**(97)**	641	986	**—%**	(35.0)%
Prepaid	**1,290**	1,013	1,575	**27.3**	(35.7)
Branded Net Additions	**1,193**	1,654	2,561	**(27.9)**	(35.4)
Reseller	**(1,704)**	(1,871)	(1,846)	**8.9**	(1.4)
Connected devices[2]	**12,321**	9,691	5,349	**27.1**	81.2
Wireless Net Subscriber Additions	**11,810**	9,474	6,064	**24.7**	56.2
Smartphones sold under our installment programs during period	**16,344**	16,667	17,871	**(1.9)%**	(6.7)%
Branded Churn[3]	**1.67%**	1.68%	1.61%	**(1) BP**	7 BP
Postpaid Churn[3]	**1.12%**	1.07%	1.07%	**5 BP**	— BP
Postpaid Phone-Only Churn[3,4]	**0.90%**	0.85%	0.92%	**5 BP**	(7) BP

[1] Excludes acquisition-related additions during the period.
[2] Includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems. Excludes postpaid tablets.
[3] Calculated by dividing the aggregate number of wireless subscribers who canceled service during a month divided by the total number of wireless subscribers at the beginning of that month. The churn rate for the period is equal to the average of the churn rate for each month of that period.
[4] Postpaid phone net adds were 194, (318) and (874) for the years 2018, 2017 and 2016, respectively.

Service revenue decreased during 2018 largely due to our adoption of a new accounting standard that included our policy election to no longer include USF fees in revenues, resulting in less revenue being allocated to the service component of bundled contracts. Partially offsetting this decrease was higher prepaid service revenues from growth in Cricket and AT&T PREPAID℠ subscribers and the diminishing impact of customers shifting to discounted monthly service charges under our unlimited plans. Service revenue declines in 2017 were primarily due to customer migration to unlimited plans, partially offset by growth in prepaid services. Since our unlimited plans have now been in effect for over a year, service revenues on a comparable basis have shown improvements, which we expect to continue in 2019.

ARPU

ARPU decreased in 2018 and was affected by the new revenue accounting standard, which reduces the service revenue recognized, and by customers shifting to unlimited plans, which decreases overage revenues; however, price increases are partially offsetting that decline.

Churn

The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. Competitive pricing in the industry contributed to higher churn rates in 2018, and our move to unlimited plans combined with an improved customer experience in 2017 contributed to lower churn rates in 2017.

Equipment revenue increased in 2018 and decreased in 2017. The 2018 increase resulted from the adoption of a new accounting standard that contributed to higher revenue allocations from bundled contracts and the sale of higher-priced devices. The 2017 decrease was driven by lower handset sales and upgrades. Equipment revenue is unpredictable as customers are choosing to upgrade devices less frequently or bring their own devices.

Operations and support expenses decreased in 2018 and 2017. The 2018 decrease was primarily due to our adoption of new accounting rules, resulting in commission deferrals and netting of USF fees, as well as increased operational efficiencies. Lower expenses in 2017 were primarily due to lower equipment costs driven by fewer sales and upgrades and increased operational efficiencies.

Depreciation expense increased in 2018 and decreased in 2017. The 2018 increase was primarily due to ongoing capital spending for network upgrades and expansion partially offset by fully depreciated assets. Depreciation expense decreased in 2017 due to fully depreciated assets, partially offset by ongoing capital spending for network upgrades and expansion.

Operating income increased in 2018 and decreased in 2017. Our Mobility operating income margin was 30.4% in 2018, 28.4% in 2017 and 28.6% in 2016. Our Mobility EBITDA margin was 42.2% in 2018, 39.7% in 2017 and 40.0% in 2016. EBITDA is defined as operating contribution excluding equity in net income (loss) of affiliates and depreciation and amortization.

Subscriber Relationships As the wireless industry has matured, future wireless growth will increasingly depend on our ability to offer innovative services, plans and devices and to provide these services in bundled product offerings with our broadband services. Subscribers that purchase two or more services from us have significantly lower churn than subscribers that purchase only one service. To support higher mobile data usage, our priority is to best utilize a wireless network that has sufficient spectrum and capacity to support these innovations on as broad a geographic basis as possible. To attract and retain subscribers in a mature and highly competitive market, we offer a wide variety of plans, including unlimited and bundled services, as well as equipment installment programs.

Branded Subscribers

At December 31, 2018, approximately 96% of our postpaid phone subscriber base used smartphones, compared to 93% at December 31, 2017 and 91% at December 31, 2016, with the vast majority of phone sales during these years attributable to smartphones.

Virtually all of our postpaid smartphone subscribers are on plans that provide for service on multiple devices at reduced rates, and such subscribers tend to have higher retention and lower churn rates. Such offerings are intended to encourage existing subscribers to upgrade their current services and/or add connected devices, attract subscribers from other providers and/or minimize subscriber churn.

Our equipment installment purchase program allows for postpaid subscribers to purchase certain devices in installments over a specified period of time, with the option to trade in the original device for a new device and have the remaining unpaid balance paid or settled once conditions are met. A significant percentage of our customers choosing equipment installment programs pay a lower monthly service charge, which results in lower service revenue recorded for these subscribers. Over half of the postpaid smartphone base is on an equipment installment program and the majority of postpaid smartphone gross adds and upgrades for all periods presented were either equipment installment program or Bring Your Own Device (BYOD). While BYOD customers do not generate equipment revenue or expense, the service revenue helps improve our margins.

Connected Devices

Connected devices include data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems. Connected device subscribers increased in 2018 and 2017, and we added approximately 7.9 million and 6.4 million wholesale connected cars through agreements with various carmakers, and experienced strong growth in other Internet of Things (IoT) connections as well. We believe that these connected car agreements give us the opportunity to create future retail relationships with the car owners.

Entertainment Group Results

	2018	2017	2016	Percent Change 2018 vs. 2017	Percent Change 2017 vs. 2016
Operating revenues					
Video entertainment	**$33,357**	$36,167	$36,001	**(7.8)%**	0.5%
High-speed internet	**7,956**	7,674	7,472	**3.7**	2.7
Legacy voice and data services	**3,041**	3,767	4,643	**(19.3)**	(18.9)
Other service and equipment	**2,106**	2,387	2,544	**(11.8)**	(6.2)
Total Operating Revenues	**46,460**	49,995	50,660	**(7.1)**	(1.3)
Operating expenses					
Operations and support	**36,430**	38,903	38,909	**(6.4)**	—
Depreciation and amortization	**5,315**	5,621	5,861	**(5.4)**	(4.1)
Total Operating Expenses	**41,745**	44,524	44,770	**(6.2)**	(0.5)
Operating Income	**4,715**	5,471	5,890	**(13.8)**	(7.1)
Equity in Net Income (Loss) of Affiliates	**(2)**	—	8	**—**	—
Operating Contribution	**$ 4,713**	$ 5,471	$ 5,898	**(13.9)%**	(7.2)%

The following tables highlight other key measures of performance for Entertainment Group:

(in 000s)	2018	2017	2016	Percent Change 2018 vs. 2017	Percent Change 2017 vs. 2016
Video Connections					
Satellite	**19,222**	20,458	21,012	**(6.0)%**	(2.6)%
U-verse	**3,681**	3,631	4,253	**1.4**	(14.6)
DIRECTV NOW[1]	**1,591**	1,155	267	**37.7**	—
Total Video Connections	**24,494**	25,244	25,532	**(3.0)**	(1.1)
Broadband Connections					
IP	**13,729**	13,462	12,888	**2.0**	4.5
DSL	**680**	888	1,291	**(23.4)**	(31.2)
Total Broadband Connections	**14,409**	14,350	14,179	**0.4**	1.2
Retail Consumer Switched Access Lines	**3,967**	4,774	5,853	**(16.9)**	(18.4)
U-verse Consumer VoIP Connections	**4,582**	5,222	5,425	**(12.3)**	(3.7)
Total Retail Consumer Voice Connections	**8,549**	9,996	11,278	**(14.5)%**	(11.4)%

[1] Consistent with industry practice, DIRECTV NOW includes connections that are on a free-trial.

(in 000s)	2018	2017	2016	Percent Change 2018 vs. 2017	Percent Change 2017 vs. 2016
Video Net Additions					
Satellite[1]	**(1,236)**	(554)	1,228	**—%**	—%
U-verse[1]	**50**	(622)	(1,361)	**—**	54.3
DIRECTV NOW[2]	**436**	888	267	**(50.9)**	—
Net Video Additions	**(750)**	(288)	134	**—**	—
Broadband Net Additions					
IP	**267**	574	532	**(53.5)**	7.9
DSL	**(208)**	(403)	(639)	**48.4**	36.9
Net Broadband Additions	**59**	171	(107)	**(65.5)%**	—%

[1] Includes disconnections for customers that migrated to DIRECTV NOW.
[2] Consistent with industry practice, DIRECTV NOW includes connections that are on a free-trial.

Dollars in millions except per share amounts

Video entertainment revenues are comprised of subscription and advertising revenues. Revenues decreased in 2018 and increased in 2017. The 2018 decrease was largely driven by a 4.9% decline in linear video subscribers, partially offset by OTT video subscriber net additions and higher advertising sales. This shift by our customers from a premium linear service to our more economically priced OTT video service or to competitors, consistent with the rest of the industry, has pressured our video revenues. We expect linear subscriber losses to continue in 2019. Also contributing to the decrease was the impact of newly adopted accounting rules, which resulted in less revenue allocated to video services when these services are bundled with other offerings. The increase in 2017 was driven by higher revenue per subscriber. For both periods, churn rose for subscribers with linear video only service, partially reflecting price increases.

High-speed internet revenues increased in 2018 and 2017. In addition to the shift of subscribers to our higher-speed fiber services, our bundling strategy is helping to lower churn with subscribers who bundle broadband with another AT&T service, having about half the churn of broadband-only subscribers.

Legacy voice and data service revenues decreased in 2018 and 2017, reflecting the continued migration of customers to our more advanced IP-based offerings or to competitors.

Operations and support expenses decreased in 2018 and 2017. The 2018 decrease was primarily due to our adoption of new accounting rules, resulting in commission deferrals and netting of USF fees, our ongoing focus on cost efficiencies, lower employee-related expenses resulting from workforce reductions and lower amortization of fulfillment cost deferrals due to a longer estimated economic life for our customers (see Note 1). The 2017 decrease was primarily due to cost efficiencies and merger synergies, workforce reductions and lower advertising expenses, partially offset by content cost increases, deferred customer fulfillment cost amortization and video platform development costs.

Depreciation expenses decreased in 2018 and 2017, primarily due to our fourth-quarter 2017 abandonment of certain copper network assets for 2018 and a fourth-quarter 2016 change in estimated useful lives and salvage value of certain assets in 2017. These decreases were partially offset by ongoing capital spending for network upgrades and expansion.

Operating income decreased in 2018 and 2017. Our Entertainment Group operating income margin was 10.1% in 2018, 10.9% in 2017 and 11.6% in 2016. Our Entertainment Group EBITDA margin was 21.6% in 2018, 22.2% in 2017 and 23.2% in 2016.

Business Wireline Results

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Operating revenues					
Strategic services	**$12,310**	$11,950	$11,139	**3.0%**	7.3%
Legacy voice and data services	**10,697**	13,565	15,904	**(21.1)**	(14.7)
Other service and equipment	**3,820**	3,778	3,942	**1.1**	(4.2)
Total Operating Revenues	**26,827**	29,293	30,985	**(8.4)**	(5.5)
Operating expenses					
Operations and support	**16,245**	18,492	19,954	**(12.2)**	(7.3)
Depreciation and amortization	**4,754**	4,789	5,235	**(0.7)**	(8.5)
Total Operating Expenses	**20,999**	23,281	25,189	**(9.8)**	(7.6)
Operating Income	**5,828**	6,012	5,796	**(3.1)**	3.7
Equity in Net Income (Loss) of Affiliates	**(1)**	(2)	—	**50.0**	—
Operating Contribution	**$ 5,827**	$ 6,010	$5,796	**(3.0)%**	3.7%

Strategic services revenues increased in 2018 and 2017. Our strategic services are made up of (1) data services, including our VPN, dedicated internet ethernet and broadband, (2) voice service, including VoIP and cloud-based voice solutions, and (3) security and cloud solutions. Revenue increases for both periods were attributable to our data services, followed by security and cloud solutions and then voice.

Legacy voice and data service revenues decreased in 2018 and 2017, primarily due to lower demand as customers continue to shift to our more advanced IP-based offerings or our competitors.

Other service and equipment revenues increased in 2018 and decreased in 2017. Other service revenues include project-based revenue, which is nonrecurring in nature, as well as revenues from other managed services, outsourcing, government professional services and customer premises equipment. The results for both periods were driven by the timing of nonrecurring customer premises equipment contracts.

Operations and support expenses decreased in 2018 and 2017. The 2018 decrease was primarily due to our adoption of new accounting rules, resulting in netting of USF fees. Also contributing to declines in both years were our ongoing efforts to shift to a software-based network and automate and digitize our customer support activities.

Depreciation expense decreased in 2018 and 2017. The decreases were primarily due to updates to the asset lives of certain network assets and our fourth-quarter 2017 abandonment of certain copper network assets.

Operating income decreased in 2018 and increased in 2017. Our Business Wireline operating income margin was 21.7% in 2018, 20.5% in 2017 and 18.7% in 2016. Our Business Wireline EBITDA margin was 39.4% in 2018, 36.9% in 2017 and 35.6% in 2016.

WARNERMEDIA SEGMENT

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Segment Operating Revenues					
Turner	**$ 6,979**	$430	$418	**—%**	—%
Home Box Office	**3,598**	—	—	**—**	—
Warner Bros.	**8,703**	—	—	**—**	—
Eliminations & Other	**(339)**	—	—	**—**	—
Total Segment Operating Revenues	**18,941**	430	418	**—**	—
Segment Operating Contribution					
Turner	**3,108**	140	147	**—**	—
Home Box Office	**1,384**	—	—	**—**	—
Warner Bros.	**1,449**	—	—	**—**	—
Eliminations & Other	**(246)**	(78)	(51)	**—**	—
Total Segment Operating Contribution	**$ 5,695**	$ 62	$ 96	**—%**	—%

Our WarnerMedia segment consists of our Turner, Home Box Office and Warner Bros. business units. The order of presentation reflects the consistency of revenue streams, rather than overall magnitude as that is subject to timing and frequency of studio releases. WarnerMedia also includes our financial results for Regional Sports Networks (RSNs), which comprise the 2017 and 2016 results reported in this segment.

The WarnerMedia segment does not include results from Time Warner operations for the periods prior to our June 14, 2018 acquisition. Otter Media is included as an equity method investment for periods prior to our August 7, 2018 acquisition of the remaining interest and is in the segment operating results following the acquisition.

Consistent with our past practice, many of the fair value adjustments from the application of purchase accounting required under GAAP have not been allocated to the segment, instead they are reported as acquisition-related items in the reconciliation to consolidated results.

Operating revenues were $18,941 in 2018.

Operating contribution was $5,695 for 2018. Our WarnerMedia segment operating income margin was 29.9% for 2018. The prior-year results are not meaningful due to the acquisition of Time Warner.

Dollars in millions except per share amounts

WarnerMedia Business Unit Discussion
Turner Results

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Operating revenues					
Subscription	**$4,207**	$365	$364	**—%**	—%
Advertising	**2,330**	65	54	**—**	—
Content and other	**442**	—	—	**—**	—
Total Operating Revenues	**6,979**	430	418	**—**	—
Operating expenses					
Operations and support	**3,794**	331	318	**—**	—
Depreciation and amortization	**131**	4	5	**—**	—
Total Operating Expenses	**3,925**	335	323	**—**	—
Operating Income	**3,054**	95	95	**—**	—
Equity in Net Income of Affiliates	**54**	45	52	**—**	—
Operating Contribution	**$3,108**	$140	$147	**—%**	—%

Turner includes the WarnerMedia businesses managed by Turner as well as our financial results for RSNs, which comprise the 2017 and 2016 results reported in this business unit.

Operating revenues for Turner are generated primarily from licensing programming to distribution affiliates and from selling advertising on its networks and digital properties. Revenues for 2018 included $4,207 of subscription, $2,330 of advertising and $442 of content and other revenue.

Operations and support expenses totaled $3,794 for 2018.

Operating income was $3,054 for 2018. Our Turner operating income margin was 43.8% for 2018. Our Turner EBITDA margin was 45.6% for 2018.

Home Box Office Results

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Operating revenues					
Subscription	**$3,201**	$—	$—	**—%**	—%
Content and other	**397**	—	—	**—**	—
Total Operating Revenues	**3,598**	—	—	**—**	—
Operating expenses					
Operations and support	**2,187**	—	—	**—**	—
Depreciation and amortization	**56**	—	—	**—**	—
Total Operating Expenses	**2,243**	—	—	**—**	—
Operating Income	**1,355**	—	—	**—**	—
Equity in Net Income of Affiliates	**29**	—	—	**—**	—
Operating Contribution	**$1,384**	$—	$—	**—%**	—%

Operating revenues for Home Box Office are generated from the exploitation of original and licensed programming through distribution outlets. Revenues for 2018 included $3,201 of subscription and $397 of content and other revenue.

Operations and support expenses totaled $2,187 for 2018.

Operating income was $1,355 for 2018. Our Home Box Office operating income margin was 37.7% for 2018. Our Home Box Office EBITDA margin was 39.2% for 2018.

Warner Bros. Results

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Operating revenues					
Theatrical product	**$4,002**	$—	$—	**—%**	—%
Television product	**3,621**	—	—	**—**	—
Games and other	**1,080**	—	—	**—**	—
Total Operating Revenues	**8,703**	—	—	**—**	—
Operating expenses					
Operations and support	**7,130**	—	—	**—**	—
Depreciation and amortization	**96**	—	—	**—**	—
Total Operating Expenses	**7,226**	—	—	**—**	—
Operating Income	**1,477**	—	—	**—**	—
Equity in Net Income (Loss) of Affiliates	**(28)**	—	—	**—**	—
Operating Contribution	**$1,449**	$—	$—	**—%**	—%

Operating revenues for Warner Bros. primarily relate to theatrical product (which is content made available for initial exhibition in theaters) and television product (which is content made available for initial airing on television or OTT services). For 2018, total operating revenues were $8,703 and included $4,002 from theatrical product, $3,621 from television product and $1,080 from games and other.

Operations and support expenses totaled $7,130 for 2018.

Operating income was $1,477 for 2018. Our Warner Bros. operating income margin was 17.0% for 2018. Our Warner Bros. EBITDA margin was 18.1% for 2018.

LATIN AMERICA SEGMENT

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Segment Operating Revenues					
Vrio	**$ 4,784**	$5,456	$4,910	**(12.3)%**	11.1%
Mexico	**2,868**	2,813	2,373	**2.0**	18.5
Total Segment Operating Revenues	**7,652**	8,269	7,283	**(7.5)**	13.5
Segment Operating Contribution					
Vrio	**347**	522	281	**(33.5)**	85.8
Mexico	**(1,057)**	(788)	(942)	**(34.1)**	16.3
Total Segment Operating Contribution	**$ (710)**	$ (266)	$ (661)	**—%**	59.8%

Operating Results

Our Latin America operations conduct business in their local currency and operating results are converted to U.S. dollars using official exchange rates, subjecting results to foreign currency fluctuations.

Operating revenues decreased in 2018 and increased in 2017. The 2018 decrease was driven by lower revenues for Vrio, primarily resulting from foreign exchange pressure partially offset by pricing increases driven by macroeconomic conditions. Our 2017 revenues included growth in both business units.

Operating contribution decreased in 2018 and increased in 2017. Our Latin America segment operating income margin was (9.7)% in 2018, (4.3)% in 2017 and (9.8)% in 2016.

Latin America Business Unit Discussion
Vrio Results

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Operating revenues	**$4,784**	$5,456	$4,910	**(12.3)%**	11.1%
Operating expenses					
Operations and support	**3,743**	4,172	3,847	**(10.3)**	8.4
Depreciation and amortization	**728**	849	834	**(14.3)**	1.8
Total Operating Expenses	**4,471**	5,021	4,681	**(11.0)**	7.3
Operating Income	**313**	435	229	**(28.0)**	90.0
Equity in Net Income of Affiliates	**34**	87	52	**(60.9)**	67.3
Operating Contribution	**$ 347**	$ 522	$ 281	**(33.5)%**	85.8%

The following tables highlight other key measures of performance for Vrio:

				Percent Change	
(in 000s)	**2018**	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Vrio Satellite Subscribers[1]	**13,838**	13,629	12,455	**1.5%**	9.4%

[1] Excludes subscribers of our equity investment in SKY Mexico, in which we own a 41.3% stake. SKY Mexico had 7.8 million subscribers at September 30, 2018 and 8.0 million at both December 31, 2017 and 2016.

				Percent Change	
(in 000s)	**2018**	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Vrio Satellite Net Subscriber Additions[1]	**250**	42	(55)	**—%**	—%

[1] Excludes SKY Mexico net subscriber losses of 167 in the nine months ended September 30, 2018 and losses of 23 and additions of 742 for years ended December 31, 2017 and 2016, respectively.

Operating revenues decreased in 2018 and increased in 2017, primarily due to foreign exchange pressures offset by related pricing actions.

Operations and support expenses decreased in 2018 and increased in 2017. The decrease in 2018 was due to changes in foreign currency exchange rates partially offset by higher programming and other operating costs. The increase in 2017 was primarily due to changes in foreign currency exchange rates as well as higher programming and other operating costs. Approximately 16% of Vrio expenses are U.S. dollar-based, with the remainder in the local currency.

Depreciation expense decreased in 2018 and increased in 2017. The fluctuations in depreciation in 2018 and 2017 were primarily due to changes in foreign currency exchange rates.

Operating income decreased in 2018 and increased in 2017. Our Vrio operating income margin was 6.5% in 2018, 8.0% in 2017 and 4.7% in 2016. Our Vrio EBITDA margin was 21.8% in 2018, 23.5% in 2017 and 21.6% in 2016.

Mexico Results

	2018	2017	2016	Percent Change 2018 vs. 2017	Percent Change 2017 vs. 2016
Operating revenues					
Service	**$ 1,701**	$2,047	$1,905	**(16.9)%**	7.5%
Equipment	**1,167**	766	468	**52.3**	63.7
Total Operating Revenues	**2,868**	2,813	2,373	**2.0**	18.5
Operating expenses					
Operations and support	**3,415**	3,232	2,983	**5.7**	8.3
Depreciation and amortization	**510**	369	332	**38.2**	11.1
Total Operating Expenses	**3,925**	3,601	3,315	**9.0**	8.6
Operating Income (Loss)	**(1,057)**	(788)	(942)	**(34.1)**	16.3
Equity in Net Income of Affiliates	**—**	—	—	**—**	—
Operating Contribution	**$(1,057)**	$ (788)	$ (942)	**(34.1)%**	16.3%

The following tables highlight other key measures of performance for Mexico:

(in 000s)	2018	2017	2016	Percent Change 2018 vs. 2017	Percent Change 2017 vs. 2016
Mexico Wireless Subscribers					
Postpaid	**5,805**	5,498	4,965	**5.6%**	10.7%
Prepaid	**12,264**	9,397	6,727	**30.5**	39.7
Branded	**18,069**	14,895	11,692	**21.3**	27.4
Reseller	**252**	204	281	**23.5**	(27.4)
Total Mexico Wireless Subscribers	**18,321**	15,099	11,973	**21.3%**	26.1%

(in 000s)	2018	2017	2016	Percent Change 2018 vs. 2017	Percent Change 2017 vs. 2016
Mexico Wireless Net Additions					
Postpaid	**307**	533	677	**(42.4)%**	(21.3)%
Prepaid	**2,867**	2,670	2,732	**7.4**	(2.3)
Branded	**3,174**	3,203	3,409	**(0.9)**	(6.0)
Reseller	**48**	(77)	(120)	**—**	35.8
Mexico Wireless Net Subscriber Additions	**3,222**	3,126	3,289	**3.1%**	(5.0)%

Service revenues decreased in 2018 and increased in 2017. The decrease in 2018 was primarily due to our shutdown of a legacy wholesale business, competitive pricing for services and our adoption of the new revenue accounting standard. The increase in 2017 was primarily due to growth in our subscriber base, partially offset by competitive pricing for services.

Equipment revenues increased in 2018 and 2017, primarily due to the offering of equipment installment programs and growth in our subscriber base.

Operations and support expenses increased in 2018 and 2017. The increases in 2018 were primarily driven by higher operational costs partly associated with higher equipment sales and expenses associated with our network expansion, partially offset by lower wholesale costs and changes in foreign currency exchange rates. The increases in 2017 were primarily driven by higher operational and network expansion expenses, and foreign currency exchange rates. Approximately 12% of Mexico expenses are U.S. dollar-based, with the remainder in the local currency.

Depreciation expense increased in 2018 and 2017 due to higher capital spending in Mexico.

Operating income decreased in 2018 and increased in 2017. Our Mexico operating income margin was (36.9)% in 2018, (28.0)% in 2017 and (39.7)% in 2016. Our Mexico EBITDA margin was (19.1)% in 2018, (14.9)% in 2017 and (25.7)% in 2016.

Dollars in millions except per share amounts

XANDR SEGMENT

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Segment Operating Revenues	**$1,740**	$1,373	$1,333	**26.7%**	3.0%
Segment Operating Expenses					
Operations and support	**398**	169	99	**—**	70.7
Depreciation and amortization	**9**	2	1	**—**	—
Total Segment Operating Expenses	**407**	171	100	**—**	71.0
Segment Operating Income	**1,333**	1,202	1,233	**10.9**	(2.5)
Equity in Net Income of Affiliates	**—**	—	—	**—**	—
Segment Operating Contribution	**$1,333**	$1,202	$1,233	**10.9%**	(2.5)%

Operating revenues increased in 2018 and 2017. The 2018 increase was primarily due to higher political advertising revenues and our acquisition of AppNexus in August 2018 (see Note 6). Revenues in 2017 were consistent with the prior year.

Operations and support expenses increased in 2018 and 2017. The 2018 increase was primarily due to our acquisition of AppNexus and our ongoing development of the platform supporting Xandr's business. The 2017 results include platform development and other costs to expand the business.

Operating income increased in 2018 and decreased in 2017. Our Xandr segment operating income margin was 76.6% in 2018, 87.5% in 2017 and 92.5% in 2016.

SUPPLEMENTAL TOTAL ADVERTISING REVENUE INFORMATION

As a supplemental presentation to our Xandr segment operating results, we are providing a view of total advertising revenues generated by AT&T. This combined view presents the entire portfolio of advertising revenues reported across all operating segments and represents a significant strategic initiative and growth opportunity for AT&T. See the revenue categories table in Note 5 for a reconciliation.

Total Advertising Revenues

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Operating Revenues					
WarnerMedia	**$ 2,461**	$ 65	$ 54	**—%**	20.4%
Communications	**1,827**	1,513	1,456	**20.8**	3.9
Xandr	**1,740**	1,373	1,333	**26.7**	3.0
Eliminations	**(1,595)**	(1,357)	(1,333)	**(17.5)**	(1.8)
Total Advertising Revenues	**$ 4,433**	$ 1,594	$ 1,510	**—%**	5.6%

SUPPLEMENTAL COMMUNICATIONS OPERATING INFORMATION

As a supplemental presentation to our Communications segment operating results, we are providing a view of our AT&T Business Solutions results which includes both wireless and wireline operations. This combined view presents a complete profile of the entire business customer relationship, including mobile solutions for our business customers. See "Discussion and Reconciliation of Non-GAAP Measure" for a reconciliation of these supplemental measures to the most directly comparable financial measures calculated and presented in accordance with GAAP.

Business Solutions Results

				Percent Change	
	2018	2017	2016	**2018 vs. 2017**	2017 vs. 2016
Operating revenues					
Wireless service	**$ 7,397**	$ 8,009	$ 8,284	**(7.6)%**	(3.3)%
Strategic services	**12,310**	11,950	11,139	**3.0**	7.3
Legacy voice and data services	**10,697**	13,565	15,904	**(21.1)**	(14.7)
Other service and equipment	**3,820**	3,778	3,942	**1.1**	(4.2)
Wireless equipment	**2,532**	1,552	1,527	**63.1**	1.6
Total Operating Revenues	**36,756**	38,854	40,796	**(5.4)**	(4.8)
Operating expenses					
Operations and support	**22,719**	24,496	25,877	**(7.3)**	(5.3)
Depreciation and amortization	**5,951**	5,901	6,308	**0.8**	(6.5)
Total Operating Expenses	**28,670**	30,397	32,185	**(5.7)**	(5.6)
Operating Income	**8,086**	8,457	8,611	**(4.4)**	(1.8)
Equity in Net Income (Loss) of Affiliates	**(1)**	(1)	—	**—**	—
Operating Contribution	**$ 8,085**	$ 8,456	$ 8,611	**(4.4)%**	(1.8)%

SUPPLEMENTAL RESULTS UNDER HISTORICAL ACCOUNTING METHOD

As a supplemental discussion of our operating results, we are providing results under the comparative historical accounting method prior to our adoption of ASC 606 for the year ended December 31, 2018.

	Reported	**Promotions & Other**	**USF**	**Commission Deferrals**	**Historical Accounting**
Service Revenues					
Communications					
Mobility	$54,933	$(1,545)	$(1,743)	$—	$58,221
Entertainment Group	46,451	(188)	(655)	—	47,294
Business Wireline	26,003	1	(1,322)	—	27,324
WarnerMedia	18,941	—	—	—	18,941
Latin America	6,485	(148)	—	—	6,633
Xandr	1,740	—	—	—	1,740
Corporate and Other	1,191	(19)	(15)	—	1,225
Eliminations	(3,399)	—	—	—	(3,399)
AT&T Service Revenues	152,345	(1,899)	(3,735)	—	157,979
Business Solutions	34,224	(559)	(1,589)	—	36,372
Equipment Revenues					
Communications					
Mobility	16,411	2,032	—	—	14,379
Entertainment Group	9	—	—	—	9
Business Wireline	824	—	—	—	824
WarnerMedia	—	—	—	—	—
Latin America	1,167	53	—	—	1,114
Corporate and Other	—	2	—	—	(2)
AT&T Equipment Revenues	18,411	2,087	—	—	16,324
Business Solutions	2,532	727	—	—	1,805
Total Operating Revenues					
Communications					
Mobility	71,344	487	(1,743)	—	72,600
Entertainment Group	46,460	(188)	(655)	—	47,303
Business Wireline	26,827	1	(1,322)	—	28,148
WarnerMedia	18,941	—	—	—	18,941
Latin America	7,652	(95)	—	—	7,747
Xandr	1,740	—	—	—	1,740
Corporate and Other	1,191	(17)	(15)	—	1,223
Eliminations	(3,399)	—	—	—	(3,399)
AT&T Operating Revenues	170,756	188	(3,735)	—	174,303
Business Solutions	36,756	168	(1,589)	—	38,177

Dollars in millions except per share amounts

	Reported	Promotions & Other	USF	Commission Deferrals	Historical Accounting
Total Operating Expenses					
Communications					
Mobility	49,621	270	(1,743)	(1,222)	52,316
Entertainment Group	41,745	(6)	(655)	(989)	43,395
Business Wireline	20,999	21	(1,322)	(111)	22,411
WarnerMedia	13,271	—	—	—	13,271
Latin America	8,396	11	—	(155)	8,540
Xandr	407	—	—	—	407
Corporate and Other	12,169	(10)	(15)	—	12,194
Eliminations	(1,948)	—	—	—	(1,948)
AT&T Operating Expenses	144,660	286	(3,735)	(2,477)	150,586
Business Solutions	28,670	32	(1,589)	(183)	30,410
Total Operating Income					
Communications					
Mobility	21,723	217	—	1,222	20,284
Entertainment Group	4,715	(182)	—	989	3,908
Business Wireline	5,828	(20)	—	111	5,737
WarnerMedia	5,670	—	—	—	5,670
Latin America	(744)	(106)	—	155	(793)
Xandr	1,333	—	—	—	1,333
Corporate and Other	(10,978)	(7)	—	—	(10,971)
Eliminations	(1,451)	—	—	—	(1,451)
AT&T Operating Income	26,096	(98)	—	2,477	23,717
Business Solutions	8,086	136	—	183	7,767

Mobility

Supplemental Results

	Reported 2018	Accounting Impact	Historical Method 2018	2017	Percent Change
Operating revenues					
Service	**$54,933**	$(3,288)	**$58,221**	$57,696	0.9%
Equipment	**16,411**	2,032	**14,379**	13,394	7.4
Total Operating Revenues	**71,344**	(1,256)	**72,600**	71,090	2.1
Operating expenses					
Operations and support	**41,266**	(2,695)	**43,961**	42,871	2.5
EBITDA	**30,078**	1,439	**28,639**	28,219	1.5
Depreciation and amortization	**8,355**	—	**8,355**	8,015	4.2
Total Operating Expenses	**49,621**	(2,695)	**52,316**	50,886	2.8
Operating Income	**21,723**	1,439	**20,284**	20,204	0.4
Equity in Net Income (Loss) of Affiliates	**(1)**	—	**(1)**	—	—
Operating Contribution	**$21,722**	$ 1,439	**$20,283**	$20,204	0.4%
Operating Income Margin	**30.4%**		**27.9%**	28.4%	(50) BP
EBITDA Margin	**42.2%**		**39.4%**	39.7%	(30) BP
EBITDA Service Margin	**54.8%**		**49.2%**	48.9%	30 BP

Entertainment Group
Supplemental Results

	Reported 2018	Accounting Impact	Historical Method 2018	2017	Percent Change
Operating revenues					
Video entertainment	**$33,357**	$ (444)	**$33,801**	$36,167	(6.5)%
High-speed internet	**7,956**	—	**7,956**	7,674	3.7
Legacy voice and data services	**3,041**	(132)	**3,173**	3,767	(15.8)
Other service and equipment	**2,106**	(267)	**2,373**	2,387	(0.6)
Total Operating Revenues	**46,460**	(843)	**47,303**	49,995	(5.4)
Operating expenses					
Operations and support	**36,430**	(1,650)	**38,080**	38,903	(2.1)
EBITDA	**10,030**	807	**9,223**	11,092	(16.8)
Depreciation and amortization	**5,315**	—	**5,315**	5,621	(5.4)
Total Operating Expenses	**41,745**	(1,650)	**43,395**	44,524	(2.5)
Operating Income	**4,715**	807	**3,908**	5,471	(28.6)
Equity in Net Income (Loss) of Affiliates	**(2)**	—	**(2)**	—	—
Operating Contribution	**$ 4,713**	$ 807	**$ 3,906**	$ 5,471	(28.6)%
Operating Income Margin	**10.1%**		**8.3%**	10.9%	(260) BP
EBITDA Margin	**21.6%**		**19.5%**	22.2%	(270) BP

Business Wireline
Supplemental Results

	Reported 2018	Accounting Impact	Historical Method 2018	2017	Percent Change
Operating revenues					
Strategic services	**$12,310**	$ (10)	**$12,320**	$11,950	3.1%
Legacy voice and data services	**10,697**	(1,027)	**11,724**	13,565	(13.6)
Other service and equipment	**3,820**	(284)	**4,104**	3,778	8.6
Total Operating Revenues	**26,827**	(1,321)	**28,148**	29,293	(3.9)
Operating expenses					
Operations and support	**16,245**	(1,412)	**17,657**	18,492	(4.5)
EBITDA	**10,582**	91	**10,491**	10,801	(2.9)
Depreciation and amortization	**4,754**	—	**4,754**	4,789	(0.7)
Total Operating Expenses	**20,999**	(1,412)	**22,411**	23,281	(3.7)
Operating Income	**5,828**	91	**5,737**	6,012	(4.6)
Equity in Net Income (Loss) of Affiliates	**(1)**	—	**(1)**	(2)	50.0
Operating Contribution	**$ 5,827**	$ 91	**$ 5,736**	$ 6,010	(4.6)%
Operating Income Margin	**21.7%**		**20.4%**	20.5%	(10) BP
EBITDA Margin	**39.4%**		**37.3%**	36.9%	40 BP

Dollars in millions except per share amounts

Latin America
Supplemental Segment Results

	Reported 2018	Accounting Impact	Historical Method 2018	2017	Percent Change
Segment operating revenues					
Vrio	**$4,784**	$ —	**$4,784**	$5,456	(12.3)%
Mexico	**2,868**	(95)	**2,963**	2,813	5.3
Total Segment Operating Revenues	**7,652**	(95)	**7,747**	8,269	(6.3)
Segment operating expenses					
Operations and support	**7,158**	(144)	**7,302**	7,404	(1.4)
EBITDA	**494**	49	**445**	865	(48.6)
Depreciation and amortization	**1,238**	—	**1,238**	1,218	1.6
Total Segment Operating Expenses	**8,396**	(144)	**8,540**	8,622	(1.0)
Segment Operating Income (Loss)	**(744)**	49	**(793)**	(353)	—
Equity in Net Income (Loss) of Affiliates	**34**	—	**34**	87	(60.9)
Segment Contribution	**$ (710)**	$ 49	**$ (759)**	$ (266)	—%
Operating Income Margin	**(9.7)%**		**(10.2)%**	(4.3)%	(590) BP
EBITDA Margin	**6.5%**		**5.7%**	10.5%	(480) BP

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

In 2019, we expect the following trends:

2019 Revenue Trends

We expect revenue growth in our wireless and broadband businesses as more customers demand instant connectivity and higher speeds made possible by our fiber and wireless network expansion. Applications like video streaming will drive demand for broadband, as well. We expect WarnerMedia's premium content to drive revenue growth from its current wholesale distribution through traditional pay-TV providers and new video streaming services. Across AT&T, we expect to provide consumers with a broad variety of video entertainment services from mobile-centric and over-the-top live TV streaming packages to traditional full-size linear video and a new direct-to-consumer subscription video-on-demand service from WarnerMedia that is set to launch late this year. Data insights from our over 170 million direct-to-consumer relationships combined with our premium video and digital advertising inventory should provide additional growth in our advertising businesses. Revenue from business customers will continue to grow for mobile and IP-based services, but decline for legacy wireline services. Our ability to reduce costs should result in continued stable margins in the Business Wireline segment. Overall, we believe growth in wireless, broadband and WarnerMedia's premium content should offset pressure from our linear video and legacy voice and data services.

2019 Expense Trends

We intend to continue to transition our hardware-based network technology to more efficient and less expensive software-based technology. This transition will prepare us to meet increased customer demand for enhanced wireless and broadband services, including video streaming, augmented reality and "smart" technologies. The software benefits of our 5G wireless technology and new video delivery platforms should result in a more efficient use of capital and lower network-related expenses in the coming years. We also expect cost savings from other corporate initiatives, digital transformation of customer service and ordering functions, vendor discounts and WarnerMedia merger synergies. Cost savings and asset monetization should help to further reduce our net debt level.

Market Conditions

The U.S. stock market experienced a volatile year with early gains being offset by a softening at year-end. General business investment remained slow, affecting our business services. Most of our products and services are not directly affected by the imposition of tariffs on Chinese goods. While unemployment remains historically low, our residential customers continue to be price sensitive in selecting offerings, especially in the video area, and continue to focus on products that give them efficient access to video and broadcast services. We expect ongoing pressure on pricing during 2019 as we respond to the competitive marketplace, especially in wireless and video services.

Included on our consolidated balance sheets are assets held by benefit plans for the payment of future benefits. Our pension plans are subject to funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). We expect only minimal ERISA contribution requirements to our pension plans for 2019. Investment returns on these assets depend largely on trends in the U.S. securities markets and the U.S. economy, and a weakness in the equity, fixed income and real asset markets could require us in future years to make contributions to the pension plans in order to maintain minimum funding requirements as established by ERISA. In addition, our policy of recognizing actuarial gains and losses related to our pension and other postretirement plans in the period in which they arise subjects us to earnings volatility caused by changes in market conditions. Changes in our discount rate, which are tied to changes in the bond market, and changes in the performance of equity markets, may have significant impacts on the valuation of our pension and other postretirement obligations at the end of 2019 (see "Accounting Policies and Estimates").

OPERATING ENVIRONMENT OVERVIEW

AT&T subsidiaries operating within the United States are subject to federal and state regulatory authorities. AT&T subsidiaries operating outside the United States are subject to the jurisdiction of national and supranational regulatory authorities in the markets where service is provided.

In the Telecommunications Act of 1996 (Telecom Act), Congress established a national policy framework intended to bring the benefits of competition and investment in advanced telecommunications facilities and services to all Americans by opening all telecommunications markets to competition and reducing or eliminating regulatory burdens that harm consumer welfare. Since the Telecom Act was passed, the Federal Communications Commission (FCC) and some state regulatory commissions have maintained or expanded certain regulatory requirements that were imposed decades ago on our traditional wireline subsidiaries when they operated as legal monopolies. The new leadership at the FCC is charting a more predictable and balanced regulatory course that will encourage long-term investment and benefit consumers. Based on its public statements, we expect the FCC to continue to eliminate antiquated, unnecessary regulations and streamline processes. In addition, we are pursuing, at both the state and federal levels, additional legislative and regulatory measures to reduce regulatory burdens that are no longer appropriate in a competitive telecommunications market and that inhibit our ability to compete more effectively and offer services wanted and needed by our customers, including initiatives to transition services from traditional networks to all IP-based networks. At the same time, we also seek to ensure that legacy regulations are not further extended to broadband or wireless services, which are subject to vigorous competition.

We have organized the following discussion by reportable segment.

Communications Segment

Internet In February 2015, the FCC released an order classifying both fixed and mobile consumer broadband internet access services as telecommunications services, subject to Title II of the Communications Act. The Order, which represented a departure from longstanding bipartisan precedent, significantly expanded the FCC's authority to regulate broadband internet access services, as well as internet interconnection arrangements. In December 2017, the FCC reversed its 2015 decision by reclassifying fixed and mobile consumer broadband services as information services and repealing most of the rules that were adopted in 2015. In lieu of broad conduct prohibitions, the order requires internet service providers to disclose information about their network practices and terms of service, including whether they block or throttle internet traffic or offer paid prioritization. Several parties appealed the FCC's December 2017 decision and the D.C. Circuit heard oral argument on the appeals on February 1, 2019. Although the FCC order expressly preempted inconsistent state or local measures, a number of states are considering or have adopted legislation that would reimpose the very rules the FCC repealed, and in some cases, establish additional requirements that go beyond the FCC's February 2015 order. Additionally, some state governors have issued executive orders that effectively reimpose the repealed requirements. Suits have recently been filed concerning laws in California and Vermont, and other lawsuits are possible. We will continue to support congressional action to codify a set of standard consumer rules for the internet.

In October 2016, a sharply divided FCC adopted new rules governing the use of customer information by providers of broadband internet access service. Those rules were more restrictive in certain respects than those governing other participants in the internet economy, including so-called "edge" providers such as Google and Facebook. In April 2017, the president signed a resolution passed by Congress repealing the new rules under the Congressional Review Act.

Privacy-related legislation has been considered in a number of states. Legislative and regulatory action could result in increased costs of compliance, claims against broadband internet access service providers and others, and increased uncertainty in the value and availability of data. On June 28, 2018, the state of California enacted comprehensive privacy legislation that gives California consumers the right to know what personal information is being collected about them, whether and to whom it is sold or disclosed, and to access and request deletion of this information. Subject to certain exceptions, it also gives consumers the right to opt-out of the sale of personal information. The law applies the same rules to all companies that collect consumer information.

Wireless We provide domestic wireless services in robustly competitive markets, but are subject to substantial governmental regulation. Wireless communications providers must obtain licenses from the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the FCC rules and policies governing the use of the spectrum. While wireless communications providers' prices and offerings are generally not subject to state or local regulation, states sometimes attempt to regulate or legislate various aspects of wireless services, particularly in the areas of consumer protection and the deployment of cell sites and equipment. The anticipated industry-wide deployment of 5G technology, which is needed to satisfy extensive demand for video and internet access, will involve significant deployment of "small cell" equipment and therefore increase the need for local permitting processes that allow for the placement of small cell equipment on reasonable timelines and terms. Federal regulations also can delay and impede broadband services, including small cell equipment. In March 2018, the FCC adopted an order to streamline the wireless infrastructure review process in order to facilitate deployment of next-generation wireless facilities. In addition, to date, 21 states have adopted legislation to facilitate small cell deployment.

As the U.S. wireless industry has matured, future wireless growth will increasingly depend on our ability to offer innovative services, plans and devices and to provide these services in bundled product offerings to best utilize a wireless network that has sufficient spectrum and capacity to support these innovations on as broad a geographic basis as possible. We continue to invest significant capital in expanding our network capacity, as well as to secure and utilize spectrum that meets our long-term needs. We recently secured the First Responder Network Authority (FirstNet) contract, which provides us with access to 20 MHz of nationwide low band spectrum, and invested in 5G and millimeter-wave technologies with our acquisition of Fiber-Tower Corporation, which holds significant amounts of spectrum in the millimeter wave bands (39 GHz) that the FCC reallocated for mobile broadband services. These bands will help to accelerate our entry into 5G services.

Video We provide domestic satellite video service through our subsidiary DIRECTV, whose satellites are licensed by the FCC. The Communications Act of 1934 and other related acts give the FCC broad authority to regulate the U.S. operations of DIRECTV, and some of WarnerMedia's businesses are also subject to obligations under the Communications Act and related FCC regulations.

WarnerMedia

We create, own and distribute intellectual property, including copyrights, trademarks and licenses of intellectual property. To protect our intellectual property, we rely on a combination of laws and license agreements. Outside of the U.S., laws and regulations relating to intellectual property protection and the effective enforcement of these laws and regulations vary greatly from country to country. The European Union Commission is pursuing legislative and regulatory initiatives that could impair Warner Bros.' current country-by-country licensing approach in the European Union. Piracy, particularly of digital content, continues to threaten WarnerMedia's revenues from products and services, and we work to limit that threat through a combination of approaches, including technological and legislative solutions. Outside the U.S., various laws and regulations, as well as trade agreements with the U.S., also apply to the distribution or licensing of feature films for exhibition in movie theaters and on broadcast and cable networks. For example, in certain countries, including China, laws and regulations limit the number of foreign films exhibited in such countries in a calendar year.

EXPECTED GROWTH AREAS

Over the next few years, we expect our growth to come from wireless, IP-based broadband services and advertising and data insights (especially with WarnerMedia). We now provide integrated services to diverse groups of customers in the U.S. on different technological platforms, including wireless, satellite and wireline. In 2019, our key initiatives include:

- Building a premier gigabit network. FirstNet, combined with our fiber and 5G deployment, provides a powerful platform to accelerate our move to a ubiquitous gigabit world.
- Creating a new platform for targeted advertising, using data, content and talent to build an automated advertising platform that can transform premium video and TV advertising.
- Continuing to develop a competitive advantage through our industry-leading network cost structure.
- Growing profitability in our Entertainment Group and Mexico business units.
- Launching more personalized entertainment services offered directly to consumers.

Integration of Data/Broadband and Entertainment Services As the communications industry continues to move toward internet-based technologies that are capable of blending wireline, satellite and wireless services, we plan to offer services that take advantage of these new and more sophisticated technologies. In particular, we intend to continue to focus on expanding our high-speed internet and video offerings and on developing IP-based services that allow customers to integrate their home or business fixed services with their mobile service. During 2019, we will continue to develop and provide unique integrated video, mobile and broadband solutions. We plan to continue expanding our OTT video service offerings. We believe this expansion will facilitate our customers' desire to view video anywhere on demand and encourage customer retention.

Wireless We expect to continue to deliver revenue growth in the coming years. We are in a period of rapid growth in wireless video usage and believe that there are substantial opportunities available for next-generation converged services that combine technologies and services.

As of December 31, 2018, we served 171 million wireless subscribers in North America, with more than 153 million in the United States. Our LTE technology covers over 400 million people in North America. In the United States, we cover all major metropolitan areas and about 325 million people. We also provide 4G coverage using another technology (HSPA+), and when combined with our upgraded backhaul network, we are able to enhance our network capabilities and provide superior mobile broadband speeds for data and video services. Our wireless network also relies on other GSM digital transmission technologies for 3G data communications. In late 2018, we were the first U.S. company to introduce mobile 5G service in parts of 12 cities, and we plan to expand that deployment nationwide in 2020.

Our acquisition of two Mexican wireless providers in 2015 brought a network covering both the U.S. and Mexico and enabled our customers to use wireless services without roaming on other companies' networks. We believe this seamless access will prove attractive to customers and provide a significant growth opportunity. In 2018, we largely completed our plan to upgrade our wireless network in Mexico, and as of the end of 2018, provided LTE coverage to approximately 100 million people and businesses.

REGULATORY DEVELOPMENTS

Set forth below is a summary of the most significant regulatory proceedings that directly affected our operations during 2018. Industry-wide regulatory developments are discussed above in Operating Environment Overview. While these issues may apply only to certain subsidiaries, the words "we," "AT&T" and "our" are used to simplify the discussion. The following discussions are intended as a condensed summary of the issues rather than as a comprehensive legal analysis and description of all of these specific issues.

International Regulation Our subsidiaries operating outside the United States are subject to the jurisdiction of regulatory authorities in the territories in which the subsidiaries operate. Our licensing, compliance and advocacy initiatives in foreign countries primarily enable the provision of enterprise (i.e., large business), wireless and satellite television services. AT&T is engaged in multiple efforts with foreign regulators to open markets to competition, foster conditions favorable to investment and increase our scope of services and products.

The General Data Protection Regulation went into effect in Europe in May of 2018. AT&T processes and handles personal data of its customers and subscribers, employees of its enterprise customers and its employees. This regulation created a range of new compliance obligations and significantly increases financial penalties for noncompliance.

Federal Regulation We have organized our following discussion by service impacted.

Internet In 2015, the FCC departed from longstanding precedent by reclassifying fixed and mobile consumer broadband internet access services as telecommunications services subject to extensive public utility-style regulation under the Telecom Act. On December 14, 2017, the FCC reversed this 2015 decision by reclassifying fixed and mobile consumer broadband services as information services and replacing broad conduct prohibitions with a regime based on transparency. The order requires internet service providers to disclose information about their network practices and terms of service, including whether they block or throttle internet traffic or offer paid prioritization. The order also preempts states from reimposing the conduct rules that the FCC repealed. Several entities have appealed various aspects of the order. Briefing on the appeal has been completed and a panel of the D.C. Circuit heard oral argument on the appeals on February 1, 2019.

Notwithstanding the FCC's preemption of inconsistent state regulation, a number of states adopted their own net neutrality regimes in 2018, reimposing most or all of the rules repealed by the FCC, in some cases without exceptions to those rules that the FCC had recognized. Legal challenges have been filed in federal district court against two of these state regimes, a law passed in California and a law and executive order adopted in Vermont. In the California case, the state and those challenging the law have entered into a "standstill" agreement under which enforcement of the law and the appeal of it would be stayed while courts considered outstanding appeals of the FCC's 2017 decision, including its preemption of inconsistent state action. In Vermont, on December 24, 2018, the state filed a motion to dismiss challenges to the law and executive order, claiming that the challengers lacked standing. Vermont also asked the court to stay consideration of the challenges until after the D.C. Circuit rules on the appeals of the 2017 FCC order, although Vermont did not offer to stay enforcement of the Vermont law or executive order during the time of the proposed stay. On January 23, 2019, challengers to the Vermont law and executive order responded to the Motion to Dismiss and filed a Motion for Summary Judgment. Argument on these motions is expected in April 2019.

Business Data Services On April 20, 2017, the FCC adopted an order in a decade-long proceeding regarding pricing of high capacity data services by incumbent local telephone companies, like AT&T. The order declines to require advanced approval of rates for packet-based services like Ethernet, opting instead to continue the existing regime under which such rates are presumed lawful but may be challenged in a complaint. In addition, the order extends this "light touch" approach to high-speed TDM transport services and to most of our TDM channel termination services, based on the application of a competitive market test for such services. For those services that do not qualify for light touch regulation, the order continues to subject the services to price cap regulation but allows companies to offer volume and term discounts, as well as contract tariffs. Several parties appealed the FCC's decision. On August 28, 2018, the U.S. Court of Appeals for the 8th Circuit substantially upheld the order, while remanding to the FCC its decision to deregulate transport services on the ground that the FCC had not given adequate prior notice of its intent to do so. The FCC has initiated a new proceeding to cure this procedural defect, which remains outstanding.

Wireless and Broadband Since November 2017, the FCC has adopted three significant rulings designed to accelerate broadband infrastructure deployment. In November 2017, the FCC updated and streamlined certain rules governing pole attachments, copper retirement, and service discontinuances and clarified that the Communications Act precludes local governments from imposing moratoria on the deployment of communications facilities. These changes should facilitate our ability to place small cell facilities on utility poles and to replace legacy facilities and services with advanced broadband infrastructure and services. In March 2018, the FCC eliminated lengthy environmental, historical and tribal reviews for most small cell deployments and streamlined processes that must be followed when those reviews are required. And, in September 2018, the FCC restricted the ability of state and local governments to impede small cell deployments in rights-of-way and on government-owned structures, through exorbitant fees, unreasonable aesthetic requirements and other actions. These decisions will remove regulatory barriers and reduce the costs of the infrastructure needed for 5G deployment. Appeals of most of these decisions have been filed and consolidated in the Ninth Circuit Court of Appeals.

In 2018, the FCC took several actions to make spectrum available for 5G services. In late 2018, the FCC adopted auction rules for the 39 GHz band that will allow the FCC to auction remaining unlicensed 39 GHz spectrum and realign the band to allow large, contiguous blocks of spectrum that will support 5G. The FCC has granted AT&T special temporary authority to launch its 5G service in 400 MHz of currently unlicensed 39 GHz spectrum in a total of 16 markets. In addition, the FCC adopted technical and auction rules for 24 and 28 GHz spectrum, two other bands that will support 5G. The 28 GHz auction is in progress, and the 24 GHz auction will commence shortly after the 28 GHz auction is completed.

COMPETITION

Competition continues to increase for communications and digital entertainment services and media and entertainment companies. Technological advances have expanded the types and uses of services and products available. In addition, lack of or a reduced level of regulation of comparable legacy services has lowered costs for alternative communications service providers. As a result, we face heightened competition as well as some new opportunities in significant portions of our business.

Wireless We face substantial and increasing competition in our wireless businesses. Under current FCC rules, multiple licensees, who provide wireless services on the cellular, PCS, Advanced Wireless Services, 700 MHz and other spectrum bands, may operate in each of our U.S. service areas, which results in the potential presence of multiple competitors. Our competitors include three national wireless providers; a larger number of regional providers of cellular, PCS and other wireless communications services and resellers of those services; and certain cable companies that are launching wireless service to their subscribers. In addition, we face competition from providers who offer voice, text messaging and other services as applications on data networks. Substantially all of the U.S. population lives in areas with at least three mobile telephone operators, with most of the population living in areas with at least four competing carriers. We are one of three providers in Mexico, with the most significant market share controlled by América Móvil. We may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed. We compete for customers based principally on service/device offerings, price, network quality, coverage area and customer service.

Video/Broadband Our subsidiaries providing communications and digital entertainment services will face continued competitive pressure in 2019 from multiple providers, including wireless, satellite, cable and other VoIP providers, online video providers, and interexchange carriers and resellers. In addition, the desire for high-speed data on demand, including video, is continuing to lead customers to terminate their traditional wired or linear services and use our or competitors' wireless, satellite and internet-based services. In most U.S. markets, we compete for customers, often on pricing of bundled services, with large cable companies for high-speed internet, video and voice services and other smaller telecommunications companies for both long-distance and local services. In addition, in Latin American countries served by our DIRECTV subsidiary, we also face competition from other video providers, including América Móvil and Telefónica.

Legacy Voice and Data We continue to lose legacy voice and data subscribers due to competitors (e.g., wireless, cable and VoIP providers) who can provide comparable services at lower prices because they are not subject to traditional telephone industry regulation (or the extent of regulation is in dispute), utilize different technologies, or promote a different business model (such as advertising based). In response to these competitive pressures, for a number of years we have used a bundling strategy that rewards customers who consolidate their services with us. We continue to focus on bundling services, including combined packages of wireless and video service through our satellite and IP-based services. We will continue to develop innovative and integrated services that capitalize on our wireless and IP-based network and satellites.

Additionally, we provide local and interstate telephone and switched services to other service providers, primarily large internet service providers using the largest class of nationwide internet networks (internet backbone), wireless carriers, other telephone companies, cable companies and systems integrators. These services are subject to additional competitive pressures from the development of new technologies, the introduction of innovative offerings and increasing satellite, wireless, fiber-optic and cable transmission capacity for services. We face a number of international competitors, including Orange Business Services, BT, Singapore Telecommunications Limited and Verizon Communications Inc., as well as competition from a number of large systems integrators.

Media Our WarnerMedia businesses, like our Entertainment Group business unit, face similar shifts in consumer viewing patterns, increased competition from OTT services and the expansion by other companies, in particular, technology companies.

WarnerMedia competes with other studios and television production groups and independent producers to produce and sell programming. Many television networks have affiliated production companies from which they are increasingly obtaining their programming, which has reduced their demand for programming from non-affiliated production companies. WarnerMedia also faces competition from other television networks and premium pay television services for distribution and marketing of its television networks and premium pay and basic tier television services by affiliates.

Our WarnerMedia businesses compete with other production companies and studios for the services of producers, directors, writers, actors and others and for the acquisition of literary properties. In recent years, technology companies also have begun to produce programming and compete with WarnerMedia for talent and property rights.

Advertising The increased amount of consumer time spent online and on mobile activities has resulted in advertisers shifting more of their advertising budgets away from traditional television advertising to digital advertising. WarnerMedia's advertising-supported television networks and digital properties compete for advertisers' spending with advertising-supported OTT services, other networks and digital properties, print, radio and other media.

ACCOUNTING POLICIES AND STANDARDS

Critical Accounting Policies and Estimates Because of the size of the financial statement line items they relate to or the extent of judgment required by our management, some of our accounting policies and estimates have a more significant impact on our consolidated financial statements than others. The following policies are presented in the order in which the topics appear in our consolidated statements of income.

Pension and Postretirement Benefits Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 14. Our assumed weighted-average discount rate for pension and postretirement benefits of 4.50% and 4.40%, respectively, at December 31, 2018, reflects the hypothetical rate at which the projected benefit obligations 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 for the obligations. 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, 2018, when compared to the year ended December 31, 2017, we increased our pension discount rate by 0.70%, resulting in a decrease in our pension plan benefit obligation of $4,394 and increased our postretirement discount rate by 0.70%, resulting in a decrease in our postretirement benefit obligation of $1,509. For the year ended December 31, 2017, we decreased our pension discount rate by 0.60%, resulting in an increase of our pension plan benefit obligation of $4,609 and decreased our postretirement discount rate by 0.60%, resulting in an increase in our postretirement benefit obligation of $1,605.

Our expected long-term rate of return on pension plan assets is 7.00% for 2019 and 2018. Our expected long-term rate of return on postretirement plan assets is 5.75% for 2019 and 2018. Our expected return on plan assets is calculated using the actual fair value of plan assets. 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 2019 combined pension and postretirement cost to increase $265, which under our accounting policy would be adjusted to actual returns in the current year as part of our fourth-quarter remeasurement of our retiree benefit plans. In 2018, we had a negative rate of return on our combined pension and postretirement plan assets of approximately 2.3%, resulting in an actuarial loss of $4,757.

We recognize gains and losses on pension and postretirement plan assets and obligations immediately in "Other income (expense) – net" in our consolidated statements of income. These gains and losses are generally measured annually as of December 31, and accordingly, will normally be recorded during the fourth quarter, unless an earlier remeasurement is required. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years. See Note 14 for additional discussions regarding our assumptions.

Depreciation Our depreciation of assets, including use of composite group depreciation and estimates of useful lives, is described in Notes 1 and 7.

If all other factors were to remain unchanged, we expect that a one-year increase in the useful lives of our plant in service would have resulted in a decrease of approximately $3,012 in our 2018 depreciation expense and that a one-year decrease would have resulted in an increase of approximately $4,313 in our 2018 depreciation expense.

Asset Valuations and Impairments Goodwill and other indefinite-lived intangible assets are not amortized but tested at least annually for impairment. For impairment testing, we estimate fair values using models that predominantly rely on the expected cash flows to be derived from the use of the asset.

We test goodwill on a reporting unit basis by comparing the estimated fair value of each reporting unit to its book value. If the fair value exceeds the book value, then no impairment is measured. We estimate fair values using an income approach (also known as a discounted cash flow) and a market multiple approach. The income approach utilizes our 10-year cash flow projections with a perpetuity value discounted at an appropriate weighted average cost of capital. The market multiple approach uses the multiples of publicly traded companies whose services are comparable to those offered by the reporting units. In 2018, the calculated fair values of the reporting units exceeded their book values in all circumstances, and no additional testing was necessary. If either the projected rate of long-term growth of cash flows or revenues declined by 0.5%, or if the discount rate increased by 0.5%, the fair values would still be higher than the book value of the goodwill. In the event of a 10% drop in the fair values of the reporting units, the fair values would have still exceeded the book values of the reporting units.

We assess fair value for wireless licenses using a discounted cash flow model (the Greenfield Approach) and a corroborative market approach based on auction prices, depending upon auction activity. The Greenfield Approach assumes a company initially owns only the wireless licenses and makes investments required to build an operation comparable to current use. Inputs to the model include subscriber growth, churn, revenue per user, capital investment and acquisition costs per subscriber, ongoing operating costs and resulting EBITDA margins. We based our assumptions on a combination of average marketplace participant data and our historical results, trends and business plans. These licenses are tested annually for impairment on an aggregated basis, consistent with their use on a national scope for the United States and Mexico. For impairment testing, we assume subscriber and revenue growth will trend up to projected levels, with a long-term growth rate reflecting expected long-term inflation trends. We assume churn rates will initially exceed our current experience, but decline to rates that are in line with industry-leading churn. For the U.S. licenses, EBITDA margins are assumed to trend toward 47% annually. For the Mexico licenses, EBITDA margins are assumed to trend toward 27% annually. We used a discount rate of 10% for United States and Mexico, based on the optimal long-term capital structure of a market participant and its associated cost of debt and equity, to calculate the present value of the projected cash flows. If either the projected rate of long-term growth of cash flows or revenues declined by 0.5%, or if the discount rate increased by 0.5%, the fair values of the wireless licenses would still be higher than the book value of the licenses. The fair values of the wireless licenses in the United States and Mexico each exceeded their book values by more than 10%.

Orbital slots are also valued using the Greenfield Approach. The projected cash flows are based on various factors, including satellite cost, other capital investment per subscriber, acquisition costs per subscriber and usage per subscriber, as well as revenue growth, subscriber growth and churn rates. For impairment testing purposes, we assumed sustainable long-term growth assumptions consistent with the business plan and industry counterparts in the United States. We used a discount rate of 8.5% to calculate the present value of the projected cash flows. In 2018, the fair value of orbital slots exceeded the book value by approximately 10%, compared to more than 10% in the prior year. The decrease in fair value was driven by the transition of the video business to streaming technology.

We review customer relationships and other finite-lived intangible assets for impairment whenever events or circumstances indicate that the book value may not be recoverable over their remaining life. For this analysis, we compare the expected undiscounted future cash flows attributable to the asset to its book value.

We periodically assess our network assets for impairment (see Note 1).

Income Taxes Our estimates of income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 13 and reflect our assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and probability of these estimates. Actual income taxes could vary from these estimates due to future changes in income tax law or the final review of our tax returns by federal, state or foreign tax authorities.

We use our judgment to determine whether it is more likely than not that we will sustain positions that we have taken on tax returns and, if so, the amount of benefit to initially recognize within our financial statements. We regularly review our uncertain tax positions and adjust our unrecognized tax benefits (UTBs) in light of changes in facts and circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law. These adjustments to our UTBs may affect our income tax expense. Settlement of uncertain tax positions may require use of our cash.

The Tax Cuts and Jobs Act (Act) was enacted on December 22, 2017. The Act reduced the U.S. federal corporate tax rate from 35% to 21%, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign-sourced earnings. At December 31, 2017, we had not completed our accounting for the tax effects of enactment of the Act; however, we remeasured substantially all 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 federal tax rate and recorded a provisional amount for our one-time transition tax liability for our foreign subsidiaries. In Staff Accounting Bulletin 118, the Securities and Exchange Commission issued guidance that provided a "measurement period" whereby registrants could provide a reasonable estimate of the tax reform impact in their financial statements and adjust that amount during the measurement period. In 2018, we completed our analysis of the Act and recorded the effects in our financial statements. (See Note 13)

NEW ACCOUNTING STANDARDS

Beginning with 2019 interim and annual reporting periods, we will adopt the FASB's new accounting guidance related to leasing. The most significant impact of the new guidance will be to our balance sheet, as we will record a right-of-use asset and corresponding liability for our operating leases existing at January 1, 2019. We plan to adopt the new leasing standard using a modified retrospective transition method as of the beginning of the period of adoption. This elected method of adoption will not require us to adjust the balance sheet for prior periods, therefore affecting the comparability of our financial statements. See Note 1 for discussion of the expected impact of the standard.

Beginning with 2018 interim and annual reporting periods, we adopted the FASB's new accounting guidance related to revenue recognition and the deferral of customer contract acquisition and fulfillment costs. As a result of modified retrospective application, the guidance only impacts our financial statements for periods beginning after December 31, 2017, affecting the comparability of our financial statements. See Notes 1 and 5 for discussion of the impacts of the standard.

OTHER BUSINESS MATTERS

Time Warner On June 14, 2018, we completed our acquisition of Time Warner, a leader in media and entertainment whose major businesses encompass an array of some of the most respected 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 scale in TV, mobile and broadband distribution. We expect that the transaction will advance our direct-to-consumer efforts and provide us with the ability to develop innovative new content offerings. Total consideration equaled $79,358, excluding Time Warner's net debt at acquisition. On July 12, 2018, the U.S. Department of Justice (DOJ) appealed the U.S. District Court's decision permitting the merger. We believe the DOJ's appeal is without merit and we will continue to vigorously defend our legal position in the appellate court, which completed oral arguments on December 6, 2018.

A putative stockholder class action lawsuit has been filed in connection with statements made in the registration statement and prospectus on Form S-4 (S-4), filed by AT&T with the SEC in connection with our acquisition of Time Warner Inc. The action, Hoffman v. Stephenson et al. (the "Hoffman Complaint"), filed on February 7, 2019 in the Supreme Court of the State of New York, County of New York, alleges violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended, by AT&T and certain of AT&T's current officers and directors based on alleged misrepresentations and omissions in the S-4 relating to trends in its then Entertainment Group segment and in particular with respect to the number of subscribers to our DIRECTV NOW service. The plaintiff in the Hoffman Complaint seeks damages, attorneys' fees and costs, rescission, disgorgement and other and further relief. We believe the claims in the Hoffman Complaint are without merit and will vigorously defend our legal position in court.

Litigation Challenging DIRECTV's NFL SUNDAY TICKET

More than two dozen putative class actions were filed in the U.S. District Courts for the Central District of California and the Southern District of New York against DIRECTV and the National Football League (NFL). These cases were brought by residential and commercial DIRECTV subscribers that have purchased NFL SUNDAY TICKET. The plaintiffs allege that (i) the 32 NFL teams have unlawfully agreed not to compete with each other in the market for nationally televised NFL football games and instead have "pooled" their broadcasts and assigned to the NFL the exclusive right to market them; and (ii) the NFL and DIRECTV have entered into an unlawful exclusive distribution agreement that allows DIRECTV to charge "supra-competitive" prices for the NFL SUNDAY TICKET package. The complaints seek unspecified treble damages and attorneys' fees along with injunctive relief. The first complaint, *Abrahamian v. National Football League, Inc., et al.*, was served in June 2015. In December 2015, the Judicial Panel on Multidistrict Litigation transferred the cases outside the Central District of California to that court for consolidation and management of pre-trial proceedings. We vigorously dispute the allegations. In August 2016, DIRECTV filed a motion to compel arbitration and the NFL defendants filed a motion to dismiss the complaint. In June 2017, the court granted the NFL defendants' motion to dismiss the complaint without leave to amend, finding that: (1) the plaintiffs did not plead a viable market; (2) the plaintiffs did not plead facts supporting the contention that the exclusive agreement between the NFL and DIRECTV harms competition; (3) the claims failed to overcome the fact that the NFL and its teams must cooperate to sell broadcasts; and (4) the plaintiffs do not have standing to challenge the horizontal agreement among the NFL and the teams. In light of the order granting the motion to dismiss, the court denied DIRECTV's motion to compel arbitration as moot. In July 2017, plaintiffs filed an appeal in the U.S. Court of Appeals for the Ninth Circuit. The appeal has been fully briefed and oral arguments were completed on December 7, 2018. We await a decision.

Federal Trade Commission Litigation Involving DIRECTV

In March 2015, the Federal Trade Commission (FTC) filed a civil suit in the U.S. District Court for the Northern District of California against DIRECTV seeking injunctive relief and money damages under Section 5 of the Federal Trade Commission Act and Section 4 of the Restore Online Shoppers' Confidence Act. The FTC's allegations concern DIRECTV's advertising, marketing and sale of programming packages. The FTC alleges that DIRECTV did not adequately disclose all relevant terms. We vigorously dispute these allegations. A bench trial began in August 2017 and was suspended after the FTC rested its case so that the court could consider DIRECTV's motion for judgment. The hearing on the motion occurred in October 2017, and the judge took it under advisement. On August 16, 2018, the court granted DIRECTV's motion in large part, substantially limiting DIRECTV's possible liability and damages. Following this decision, the FTC agreed to dismissal of its claims with prejudice. The court entered an order of dismissal in October 2018, ending the litigation.

Unlimited Data Plan Claims In October 2014, the FTC filed a civil suit in the U.S. District Court for the Northern District of California against AT&T Mobility, LLC seeking injunctive relief and unspecified money damages under Section 5 of the Federal Trade Commission Act. The FTC's allegations concern the application of AT&T's Maximum Bit Rate (MBR) program to customers who enrolled in our Unlimited Data Plan from 2007-2010. MBR temporarily reduces in certain instances the download speeds of a small portion of our legacy Unlimited Data Plan customers each month after the customer exceeds a designated amount of data during the customer's billing cycle. MBR is an industry-standard practice that is designed to affect only the most data-intensive applications (such as video streaming). Texts, emails, tweets, social media posts, internet browsing and many other applications are typically unaffected. Contrary to the FTC's allegations, our MBR program is permitted by our customer contracts, was fully disclosed in advance to our Unlimited Data Plan customers, and was implemented to protect the network for the benefit of all customers. We are engaged in pre-trial discovery. In addition to the FTC case, several class actions were filed challenging our MBR program. We secured dismissals in each of these cases except Roberts v. AT&T Mobility LLC, which is ongoing.

Labor Contracts As of January 31, 2019, we employed approximately 268,000 persons. Approximately 40% of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers (IBEW) or other unions. After expiration of the agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached. A contract now covering approximately 8,300 traditional wireline employees in our Midwest region expired in April 2018 and employees are working under the terms of the prior contract, including benefits, while negotiations continue. In addition, a contract now covering approximately 3,300 traditional wireline employees in our legacy AT&T Corp. business also expired in April 2018. Those employees are working under the terms of their prior contract, including benefits, while negotiations continue. Other contracts covering approximately 26,000 employees are scheduled to expire during 2019.

Environmental We are subject from time to time to judicial and administrative proceedings brought by various governmental authorities under federal, state or local environmental laws. We reference in our Forms 10-Q and 10-K certain environmental proceedings that could result in monetary sanctions (exclusive of interest and costs) of one hundred thousand dollars or more. However, we do not believe that any of those currently pending will have a material adverse effect on our results of operations.

LIQUIDITY AND CAPITAL RESOURCES

With the completion of the Time Warner transaction, we had $5,204 in cash and cash equivalents available at December 31, 2018. Cash and cash equivalents included cash of $3,130 and money market funds and other cash equivalents of $2,074. Approximately $1,930 of our cash and cash equivalents were held by our foreign entities in accounts predominantly outside of the U.S. and may be subject to restrictions on repatriation.

Cash and cash equivalents decreased $45,294 since December 31, 2017, due to our acquisition of Time Warner. In 2018, cash inflows were primarily provided by the cash receipts from operations, issuance of commercial paper and long-term debt and dispositions. These inflows were offset by cash used to meet the needs of the business, including, but not limited to, the acquisitions of Time Warner and AppNexus, payment of operating expenses, funding capital expenditures, debt repayments, collateral deposits to banks and other participants in our derivative arrangements and dividends to stockholders.

We actively manage the timing of our vendor payments to optimize the use of our cash. Among other things, we seek to have vendor payments made on 90-day or greater terms, while providing vendors with access to bank facilities that permit earlier payments at the vendors' cost. In addition, for payments to a key supplier, we have arrangements that allow us to extend payment terms up to 90 days at an additional cost to us. (See Note 21)

Cash Provided by or Used in Operating Activities

During 2018, cash provided by operating activities was $43,602 compared to $38,010 in 2017. Higher operating cash flows in 2018 were primarily due to contributions from acquired businesses, lower cash tax payments in 2018 of $2,360 and lower voluntary employee-related payments of $640; as well as continued working capital focus, including extension of vendor payment terms with suppliers, resulting in $1,602 of accounts payable increase offset by $1,244 of receivable timing pressure.

During 2017, cash provided by operating activities was $38,010 compared to $38,442 in 2016. Lower operating cash flows in 2017 were primarily due to more than $1,000 of voluntary employee-related payments resulting from tax reform.

Cash Used in or Provided by Investing Activities

During 2018, cash used in investing activities totaled $63,145, and consisted primarily of $43,309 for acquisition costs related to Time Warner, AppNexus and other transactions as well as $20,758 for capital expenditures, excluding interest during construction.

The vast majority of our capital expenditures are spent on our networks, including product development and related support systems. Capital expenditures, excluding interest during construction, increased $111 in 2018. Capital expenditures gross of FirstNet capital reimbursements increased $1,261 in 2018. During the year, approximately $1,500 of assets related to the FirstNet build have been placed into service. Total reimbursements from the government for FirstNet during 2018 were $1,670, predominately capital reimbursements.

In connection with capital improvements, we negotiate favorable payment terms (referred to as vendor financing), which are excluded from our investing activities and reported as financing activities. We enter into these supplier arrangements when the terms provide benefits to us relative to alternative financing arrangements. In 2018, vendor financing payments related to capital investments were approximately $560. During the year, we entered into $2,162 of new vendor financing commitments, with $2,495 of vendor financing payables included in our December 31, 2018 consolidated balance sheet, of which $1,984 are due within one year and the remainder are due between two and five years.

The amount of capital expenditures is influenced by demand for services and products, capacity needs and network enhancements. We are also focused on ensuring DIRECTV merger commitments are met. As of December 31, 2018, we market our fiber-to-the-premises network to 11 million customer locations and are on track to meet our FCC commitment of 12.5 million locations by mid-2019.

In 2019, we expect that our total capital investment, which consists of capital expenditures plus potential vendor financing payments, will be in the $23,000 range, excluding expected FirstNet reimbursement in the $1,000 range.

Cash Used in or Provided by Financing Activities

For the full year, cash used in financing activities totaled $25,989 and included net proceeds of $41,875 primarily resulting from drawing $20,925 on our term loan credit agreements in connection with our acquisition of Time Warner. Additionally, in November 2018, we entered into and drew on an additional $3,550 term loan agreement to repay a portion of the term loans drawn on for the Time Warner acquisition. The remaining amount consisted primarily of the following issuances:

- April issuance of approximately $2,000 of notes and other borrowings issued by our subsidiary Vrio Corp. (Vrio). See discussion below.
- June issuance of $1,500 of floating rate global notes due 2021.
- August issuance of $825 of 5.625% global notes due 2067.
- August issuance of €2,250 ($2,637 U.S. dollar equivalent) floating rate global notes due 2020.
- August issuance of $3,750 of floating rate global notes due 2024.
- August issuance of CAD$1,250 of 4.000% global notes due 2025 and CAD$750 of 5.100% global notes due 2048 (together, equivalent to $1,536 when issued).
- September issuance of £750 global notes due 2026 (equivalent to $972 when issued).
- September issuance of A$475 of floating rate notes due 2023, A$150 of 3.450% notes due 2023, A$300 of 4.100% notes due 2026 and A$400 of 4.600% notes due 2028 (together, equivalent to $955 when issued).

During 2018, we redeemed or repaid $52,643 of debt. Approximately $21,236 of notes were subject to mandatory redemption if we did not complete our acquisition of Time Warner by April 22, 2018. The remaining amount primarily consisted of the following redemptions:

- $2,500 of 5.500% notes due 2018.
- $750 of 1.750% notes due 2018.
- $300 of 6.450% notes due 2018.
- $1,000 of 5.600% notes due 2018.
- $2,000 repayment of amounts outstanding under Warner Media, LLC’s Term Credit Agreement.
- $600 of 6.875% historic TW Inc. notes due 2018.
- $1,000 of notes issued by Vrio.
- $16,050 repayment of amounts outstanding under our term loan agreements.
- $1,400 of 4.875% Warner Media, LLC notes due 2020.
- $1,600 of 2.375% notes due 2018.
- $400 of floating rate notes due 2018.
- $2,250 of 5.800% notes due 2019.
- $942 of 5.875% notes due 2019.

On February 19, 2019, we issued $3,000 of 4.350% global notes due 2029 and $2,000 of 4.850% global notes due 2039. The proceeds will be used to redeem approximately $4,100 of senior notes issued by AT&T or one of our subsidiaries, such notes were issued redemption notices on February 15, 2019 and will be redeemed on March 27, 2019. Excess proceeds, together with cash on hand, were used to pay down amounts outstanding under term loans drawn on for the Time Warner acquisition.

Our weighted average interest rate of our entire long-term debt portfolio, including the impact of derivatives, was approximately 4.4% as of December 31, 2018 and December 31, 2017. We had $171,529 of total notes and debentures outstanding at December 31, 2018, which included Euro, British pound sterling, Swiss franc, Brazilian real, Mexican peso, Canadian dollar and Australian dollar denominated debt that totaled approximately $41,356.

As a result of the Time Warner acquisition, we acquired debt with a fair value of $22,865 at the time of acquisition, of which $16,981 at face value remained on our balance sheet as of December 31, 2018. The face value of the remaining debt acquired is summarized primarily as follows:

- $650 maturing in 2019 with an interest rate of 2.100%.
- $5,471 maturing between 2020 and 2024 with an interest rate ranging from 1.950% to 9.150%.
- $5,898 maturing between 2025 and 2034 with an interest rate ranging from 2.950% to 7.700%.
- $4,962 maturing between 2035 and 2045 with an interest rate ranging from 4.650% to 8.300%.

At December 31, 2018, we had $10,255 of debt maturing within one year, primarily consisting of $7,062 of long-term debt issuances and $3,048 of commercial paper borrowing. Debt maturing within one year includes the following notes that may be put back to us by the holders:

- $1,000 of annual put reset securities issued by BellSouth that may be put back to us each April until maturity in 2021.
- An accreting zero-coupon note that may be redeemed each May until maturity in 2022. If the remainder of 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.

Vrio entered into an April 2018 borrowing of approximately $1,000 of debt denominated in Brazilian reais that matures in 2021. The current floating rate for the facility is based upon the Brazil interbank deposit rate annualized (DI Rate), plus 100 basis points. This borrowing is unhedged and remained outstanding at December 31, 2018.

At December 31, 2018, we had approximately 376 million shares remaining from share repurchase authorizations approved by the Board of Directors in 2013 and 2014 (see Note 16). For the year ended December 31, 2018, we repurchased approximately 13 million shares under these authorizations.

We paid dividends of $13,410 in 2018, $12,038 in 2017 and $11,797 in 2016, primarily reflecting the increase in the number of shares outstanding related to our acquisition of Time Warner as well as an increase in our quarterly dividend approved by our Board of Directors in December 2017. Dividends declared by our Board of Directors totaled $2.01 per share in 2018 and $1.97 per share in 2017. Our dividend policy considers the expectations and requirements of stockholders, capital funding requirements of AT&T and long-term growth opportunities. It is our intent to provide the financial flexibility to allow our Board of Directors to consider dividend growth and to recommend an increase in dividends to be paid in future periods. All dividends remain subject to declaration by our Board of Directors.

Excluding the impact of acquisitions, our 2019 financing activities will focus on the refinancing and/or repayment of debt and the payment of dividends, subject to approval by our Board of Directors. We plan to fund our financing uses of cash through a combination of cash from operations, debt issuances and asset sales. The timing and mix of any debt issuance will be guided by credit market conditions and interest rate trends.

Credit Facilities

The following summary of our various credit and loan agreements does not purport to be complete and is qualified in its entirety by reference to each agreement filed as exhibits to our Annual Report on Form 10-K.

We use credit facilities as a tool in managing our liquidity status. In December 2018, we amended our five-year revolving credit agreement (the "Amended and Restated Credit Agreement") and concurrently entered into a new five-year agreement (the "Five Year Credit Agreement") such that we now have two $7,500 revolving credit agreements totaling $15,000. The Amended and Restated Credit Agreement terminates on December 11, 2021 and the Five Year Credit Agreement terminates on December 11, 2023. No amounts were outstanding under either agreement as of December 31, 2018.

On September 29, 2017, we entered into a $2,250 syndicated term loan credit agreement (the "Nova Scotia Credit Agreement") containing (i) a three-year $750 term loan facility, (ii) a four-year $750 term loan facility and (iii) a five-year $750 term loan facility, with certain investment and commercial banks and The Bank of Nova Scotia, as administrative agent. We drew on all three facilities during the first quarter of 2018, with $2,250 in advances outstanding as of December 31, 2018.

In anticipation of the Time Warner acquisition, we entered into a $16,175 term loan agreement ("Acquisition Term Loan") containing (i) a 2.5 year $8,087.5 facility (the "Tranche A Facility") and (ii) a 4.5 year $8,087.5 facility (the "Tranche B Facility") with a commitment termination date of December 31, 2018. We drew on the entire Acquisition Term Loan during the second quarter of 2018 and subsequently repaid all amounts outstanding under the Tranche B Facility and $5,463 of amounts outstanding under the Tranche A Facility. As of December 31, 2018, $2,625 is outstanding of Tranche A advances and $0 is outstanding of Tranche B advances. We paid $2,625 of the Tranche A advances on February 20, 2019, and terminated the facility.

On November 20, 2018, we entered into and drew on a 4.5 year $3,550 term loan credit agreement (the "November 2018 Term Loan") with Bank of America, N.A., as agent. We used the proceeds to finance the repayment, in part, of loans outstanding under the Acquisition Term Loan.

On January 31, 2019, we entered into and drew on an 11-month $2,850 syndicated term loan credit agreement (the "Citibank Term Loan"), with certain investment and commercial banks and Citibank, N.A., as administrative agent.

We also utilize other external financing sources, which include various credit arrangements supported by government agencies to support network equipment purchases, as well as a commercial paper program.

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 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. As of December 31, 2018, we were in compliance with the covenants for our credit facilities.

Collateral Arrangements

During 2018, we deposited $2,045 of additional cash collateral, on a net basis, to banks and other participants in our derivative arrangements, compared to receiving $3,714 in the prior year. Cash postings under these arrangements vary with changes in credit ratings and netting agreements. (See Note 12)

Other

Our total capital consists of debt (long-term debt and debt maturing within one year) and stockholders' equity. Our capital structure does not include debt issued by our equity method investments. At December 31, 2018, our debt ratio was 47.7%, compared to 53.6% at December 31, 2017 and 49.9% at December 31, 2016. Our net debt ratio was 46.2% at December 31, 2018, compared to 37.2% at December 31, 2017 and 47.5% at December 31, 2016. The debt ratio is affected by the same factors that affect total capital, and reflects our recent debt issuances, repayments and debt acquired in business combinations.

A significant amount of our cash outflows is related to tax items and benefits paid for current and former employees. Total taxes incurred, collected and remitted by AT&T during 2018, 2017 and 2016 were $22,172, $23,393 and $25,099. These taxes include income, franchise, property, sales, excise, payroll, gross receipts and various other taxes and fees. Total health and welfare benefits provided to certain active and retired employees and their dependents totaled $4,368 in 2018, with $1,503 paid from plan assets. Of those benefits, $4,020 related to medical and prescription drug benefits. In addition, in 2018 we prefunded $480 for future benefit payments. During 2018, we paid $4,632 of pension benefits out of plan assets.

During 2018, we also received approximately $9,879 from monetization of various assets, compared to $5,727 in 2017, primarily from our sales of certain equipment installment receivables and the sale of our colocation business. We plan to continue to explore similar opportunities in 2019.

During 2018, to simplify transferability and enhance marketability, we modified our agreement covering the contribution of the preferred equity interest in AT&T Mobility II LLC (Mobility II) with our pension trust and began accounting for this instrument as a noncontrolling interest. The trust is entitled to receive cumulative cash distributions of $560 per annum, which are distributed quarterly in equal amounts. So long as those distributions are declared and paid, the terms of the preferred equity interest will not impose any limitations on our ability to declare a dividend on or repurchase AT&T shares. Mobility II distributed $560 to the trust during 2018 and 2017. See Notes 14 and 16 for additional information.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

Our contractual obligations as of December 31, 2018 are in the following table:

Contractual Obligations

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations[1]	$174,553	$ 7,090	$26,133	$26,721	$114,609
Interest payments on long-term debt	114,297	7,612	14,328	12,459	79,898
Purchase obligations[2]	63,661	16,172	18,687	10,310	18,492
Operating lease obligations[3]	27,594	4,361	7,604	6,089	9,540
FirstNet sustainability payments[4]	17,760	120	240	390	17,010
Unrecognized tax benefits[5]	9,917	355	—	—	9,562
Other finance obligations[6]	7,567	2,566	1,297	872	2,832
Total Contractual Obligations	$415,349	$38,276	$68,289	$56,841	$251,943

[1] Represents principal or payoff amounts of notes and debentures at maturity or, for putable debt, the next put opportunity (see Note 11).
[2] The purchase obligations will be funded with cash provided by operations or through incremental borrowings. The minimum commitment for certain obligations is based on termination penalties that could be paid to exit the contracts. If we elect to exit these contracts, termination fees for all such contracts in the year of termination could be approximately $225 in 2019, $174 in the aggregate for 2020 and 2021, $112 in the aggregate for 2022 and 2023, and $49 in the aggregate thereafter. Certain termination fees are excluded from the above table, as the fees would not be paid every year and the timing of such payments, if any, is uncertain.
[3] Represents operating lease payments (see Note 7).
[4] Represents contractual commitment to make sustainability payments over the 25-year contract. These sustainability payments represent our commitment to fund FirstNet's operating expenses and future reinvestment 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 we anticipate to be $15,000. (See Note 19)
[5] The noncurrent portion of the UTBs is included in the "More than 5 Years" column, as we cannot reasonably estimate the timing or amounts of additional cash payments, if any, at this time (see Note 13).
[6] Represents future minimum payments under the Crown Castle and other arrangements (see Note 18), payables subject to extended payment terms (Note 21) and capital lease payments (see Note 7).

Certain items were excluded from this table, as the year of payment is unknown and could not be reliably estimated since past trends were not deemed to be an indicator of future payment, the obligations are immaterial or because the settlement of the obligation will not require the use of cash. These items include: deferred income tax liability of $57,859 (see Note 13); net postemployment benefit obligations of $19,218; expected pension and postretirement payments (see Note 14); other noncurrent liabilities of $15,521; third-party debt guarantees; and fair value of our interest rate swaps.

MARKET RISK

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. These risks, along with other business risks, impact our cost of capital. It is our policy to manage our debt structure and foreign exchange exposure in order to manage capital costs, control financial risks and maintain financial flexibility over the long term. In managing market risks, we employ derivatives according to documented policies and procedures, including interest rate swaps, interest rate locks, foreign currency exchange contracts and combined interest rate foreign currency contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We do not foresee significant changes in the strategies we use to manage market risk in the near future.

One of the most significant assumptions used in estimating our postretirement benefit obligations is the assumed weighted-average discount rate, which is the hypothetical rate at which the projected benefit obligations 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 for the obligations. In recent years, the discount rates have been increasingly volatile, and on average have been lower than in historical periods. Lower discount rates used to measure our pension and postretirement plans result in higher obligations. Future increases in these rates could result in lower obligations, improved funded status and actuarial gains.

Interest Rate Risk

The majority of our financial instruments are medium- and long-term fixed-rate notes and debentures. Changes in interest rates can lead to significant fluctuations in the fair value of these instruments. The principal amounts by expected maturity, average interest rate and fair value of our liabilities that are exposed to interest rate risk are described in Notes 11 and 12. In managing interest expense, we control our mix of fixed and floating rate debt, principally through the use of interest rate swaps. We have established interest rate risk limits that we closely monitor by measuring interest rate sensitivities in our debt and interest rate derivatives portfolios.

Most of our foreign-denominated long-term debt has been swapped from fixed-rate or floating-rate foreign currencies to fixed-rate U.S. dollars at issuance through cross-currency swaps, removing interest rate risk and foreign currency exchange risk associated with the underlying interest and principal payments. Likewise, periodically we enter into interest rate locks to partially hedge the risk of increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We expect gains or losses in our cross-currency swaps and interest rate locks to offset the losses and gains in the financial instruments they hedge.

Following are our interest rate derivatives subject to material interest rate risk as of December 31, 2018. The interest rates illustrated below refer to the average rates we expect to pay based on current and implied forward rates and the average rates we expect to receive based on derivative contracts. The notional amount is the principal amount of the debt subject to the interest rate swap contracts. The fair value asset (liability) represents the amount we would receive (pay) if we had exited the contracts as of December 31, 2018.

	Maturity							
	2019	2020	2021	2022	2023	Thereafter	Total	Fair Value 12/31/18
Interest Rate Derivatives								
Interest Rate Swaps:								
Receive Fixed/Pay								
Variable Notional Amount Maturing	$1,850	$ —	$853	$100	$ —	$680	$3,483	$(39)
Weighted-Average								
Variable Rate Payable[1]	5.9%	5.9%	6.6%	6.8%	6.9%	7.0%		
Weighted-Average								
Fixed Rate Receivable	5.3%	5.6%	6.5%	6.8%	6.8%	6.6%		

[1] Interest payable based on current and implied forward rates for One, Three, or Six Month LIBOR plus a spread ranging between approximately 49 and 564 basis points.

Foreign Exchange Risk

We principally use foreign exchange contracts to hedge the risk related to unremitted or forecasted royalties and license fees owed to our domestic companies for the sale or anticipated sale of U.S. copyrighted products abroad because such amounts may be adversely affected by changes in foreign currency exchange rates. Similarly, we enter into foreign exchange contracts to hedge certain film production costs denominated in foreign currencies as well as other transactions, assets and liabilities denominated in foreign currencies. As part of our overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, we generally hedge a portion of our foreign currency exposures anticipated over a rolling twelve-month period. The hedging period for royalties and license fees generally covers revenues expected to be recognized during the calendar year; however, there is often a lag between the time that revenue is recognized and the transfer of foreign-denominated cash to U.S. dollars. To hedge this exposure, we use foreign exchange contracts that generally have maturities of three months to eighteen months and provide continuing coverage throughout the hedging period.

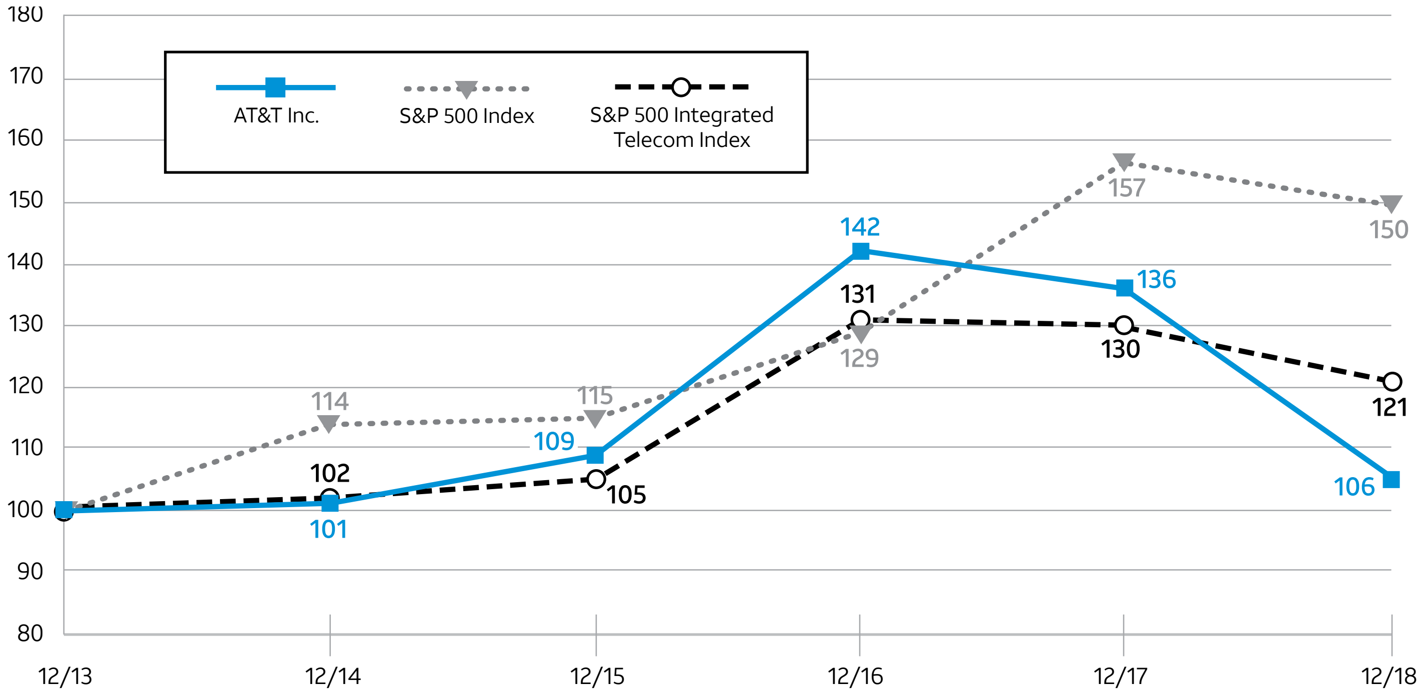
We are also exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. We have designated €700 million aggregate principal amount of debt as a hedge of the variability of certain Euro-denominated net investments of WarnerMedia. The gain or loss on the debt that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation is recorded as a currency translation adjustment within accumulated other comprehensive income, net on the consolidated balance sheet.

Through cross-currency swaps, most of our foreign-denominated debt has been swapped from fixed-rate or floating-rate foreign currencies to fixed-rate U.S. dollars at issuance, removing interest rate and foreign currency exchange risk associated with the underlying interest and principal payments. We expect gains or losses in our cross-currency swaps to offset the gains and losses in the financial instruments they hedge.

For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. We had foreign exchange forward contracts with a notional value of $2,094 and a fair value of $85 outstanding at December 31, 2018.

STOCK PERFORMANCE GRAPH

Comparison of Five Year Cumulative Total Return
AT&T Inc., S&P 500 Index, and S&P 500 Integrated Telecom Index



The comparison above assumes $100 invested on December 31, 2013, in AT&T common stock, Standard & Poor's 500 Index (S&P 500), and Standard & Poor's 500 Integrated Telecom Index (S&P 500 Integrated Telecom). Total return equals stock price appreciation plus reinvestment of dividends.

DISCUSSION AND RECONCILIATION OF NON-GAAP MEASURE

We believe the following measure is relevant and useful information to investors as it is used by management as a method of comparing performance with that of many of our competitors. This supplemental measure should be considered in addition to, but not as a substitute of, our consolidated and segment financial information.

Business Solutions Reconciliation

We provide a supplemental discussion of our Business Solutions operations that is calculated by combining our Mobility and Business Wireline business units, and then adjusting to remove non-business operations. The following table presents a reconciliation of our supplemental Business Solutions results.

	Year Ended December 31, 2018			
	Mobility	**Business Wireline**	**Adjustments[1]**	**Business Solutions**
Operating revenues				
Wireless service	**$54,933**	**—**	**$(47,536)**	**$ 7,397**
Strategic services	**—**	**12,310**	**—**	**12,310**
Legacy voice and data services	**—**	**10,697**	**—**	**10,697**
Other service and equipment	**—**	**3,820**	**—**	**3,820**
Wireless equipment	**16,411**	**—**	**(13,879)**	**2,532**
Total Operating Revenues	**71,344**	**26,827**	**(61,415)**	**36,756**
Operating expenses				
Operations and support	**41,266**	**16,245**	**(34,792)**	**22,719**
EBITDA	**30,078**	**10,582**	**(26,623)**	**14,037**
Depreciation and amortization	**8,355**	**4,754**	**(7,158)**	**5,951**
Total Operating Expense	**49,621**	**20,999**	**(41,950)**	**28,670**
Operating Income	**21,723**	**5,828**	**(19,465)**	**8,086**
Equity in Net Income of Affiliates	**(1)**	**(1)**	**1**	**(1)**
Operating Contribution	**$21,722**	**5,827**	**(19,464)**	**$ 8,085**

[1] Non-business wireless reported in the Communications segment under the Mobility business unit.

	Year Ended December 31, 2017			
	Mobility	Business Wireline	Adjustments[1]	Business Solutions
Operating revenues				
Wireless service	$57,696	$ —	$(49,687)	$ 8,009
Strategic services	—	11,950	—	11,950
Legacy voice and data services	—	13,565	—	13,565
Other service and equipment	—	3,778	—	3,778
Wireless equipment	13,394	—	(11,842)	1,552
Total Operating Revenues	71,090	29,293	(61,529)	38,854
Operating expenses				
Operations and support	42,871	18,492	(36,867)	24,496
EBITDA	28,219	10,801	(24,662)	14,358
Depreciation and amortization	8,015	4,789	(6,903)	5,901
Total Operating Expense	50,886	23,281	(43,770)	30,397
Operating Income	20,204	6,012	(17,759)	8,457
Equity in Net Income of Affiliates	—	(2)	1	(1)
Operating Contribution	$20,204	$ 6,010	$(17,758)	$ 8,456

[1] Non-business wireless reported in the Communications segment under the Mobility business unit.

Dollars in millions except per share amounts

	Year Ended December 31, 2016			
	Mobility	Business Wireline	Adjustments[1]	Business Solutions
Operating revenues				
Wireless service	$59,152	$ —	$(50,868)	$ 8,284
Strategic services	—	11,139	—	11,139
Legacy voice and data services	—	15,904	—	15,904
Other service and equipment	—	3,942	—	3,942
Wireless equipment	13,435	—	(11,908)	1,527
Total Operating Revenues	72,587	30,985	(62,776)	40,796
Operating expenses				
Operations and support	43,567	19,954	(37,644)	25,877
EBITDA	29,020	11,031	(25,132)	14,919
Depreciation and amortization	8,277	5,235	(7,204)	6,308
Total Operating Expense	51,844	25,189	(44,848)	32,185
Operating Income	20,743	5,796	(17,928)	8,611
Equity in Net Income of Affiliates	—	—	—	—
Operating Contribution	$20,743	$ 5,796	(17,928)	$ 8,611

[1] Non-business wireless reported in the Communications segment under the Mobility business unit.

RISK FACTORS

In addition to the other information set forth in this document, including the matters contained under the caption "Cautionary Language Concerning Forward-Looking Statements," you should carefully read the matters described below. We believe that each of these matters could materially affect our business. We recognize that most of these factors are beyond our ability to control and therefore we cannot predict an outcome. Accordingly, we have organized them by first addressing general factors, then industry factors and, finally, items specifically applicable to us.

Adverse changes in medical costs, the U.S. securities markets and interest rates could materially increase our benefit plan costs.

Our costs to provide current benefits and funding for future benefits are subject to increases, primarily due to continuing increases in medical and prescription drug costs, and can be affected by lower returns on funds held by our pension and other benefit plans, which are reflected in our financial statements for that year. Depressed market returns in 2018 have led to lower than assumed investment returns on our plan assets, with a higher end-of-period yield curve contributing to lower benefit obligations resulting in an insignificant change to our overall funding obligations. Should unfavorable market returns continue, we may need to adjust our assumed rate of return on plan assets. In calculating the costs included on our financial statements of providing benefits under our plans, we have made certain assumptions regarding future investment returns, medical costs and interest rates. While we have made some changes to the benefit plans to limit our risk from increasing medical costs, if actual investment returns, medical costs and interest rates are worse than those previously assumed, our expenses will increase.

The Financial Accounting Standards Board requires companies to recognize the funded status of defined benefit pension and postretirement plans as an asset or liability in our statement of financial position and to recognize changes in that funded status in the year in which the changes occur. We have elected to reflect the annual adjustments to the funded status in our consolidated statement of income. Therefore, an increase in our costs or adverse market conditions will have a negative effect on our operating results.

Adverse changes in global financial markets could limit our ability and our larger customers' ability to access capital or increase the cost of capital needed to fund business operations.

While the global financial markets were generally stable during 2018, a continuing uncertainty surrounding global growth rates has resulted in continuing volatility in the credit, currency, equity and fixed income markets. Uncertainty regarding the impositions of U.S. tariffs on Chinese goods, the impending withdrawal of the United Kingdom from the European Union, the potential failure of the United Kingdom and the European Union to reach agreement on the terms of the exit and other political developments in Europe and Asia could significantly affect global financial markets in 2019. Volatility in other areas, such as in emerging markets, may affect companies' access to the credit markets, leading to higher borrowing costs for companies or, in some cases, the inability of these companies to fund their ongoing operations.

In addition, we contract with large financial institutions to support our own treasury operations, including contracts to hedge our exposure on interest rates and foreign exchange and the funding of credit lines and other short-term debt obligations, including commercial paper. These financial institutions also face stricter capital-related and other regulations in the United States and Europe, as well as ongoing legal and financial issues concerning their loan portfolios, which may hamper their ability to provide credit or raise the cost of providing such credit. A company's cost of borrowing is also affected by evaluations given by various credit rating agencies and these agencies have been applying tighter credit standards when evaluating a company's debt levels and future growth prospects. While we have been successful in continuing to access the credit and fixed income markets when needed, adverse changes in the financial markets could render us either unable to access these markets or able to access these markets only at higher interest costs and with restrictive financial or other conditions, severely affecting our business operations.

Changes to federal, state and foreign government regulations and decisions in regulatory proceedings could further increase our operating costs and/or alter customer perceptions of our operations, which could materially adversely affect us.

Our subsidiaries providing wired services are subject to significant federal and state regulation while many of our competitors are not. In addition, our subsidiaries and affiliates operating outside the United States are also subject to the jurisdiction of national and supranational regulatory authorities in the market where service is provided. Our wireless and various video subsidiaries are regulated to varying degrees by the FCC and in some instances, by state and local agencies. Adverse regulations and rulings by the FCC relating to broadband and especially satellite video issues could impede our ability to manage our networks and recover costs and lessen incentives to invest in our networks. The development of new technologies, such as IP-based services, also has created or potentially could create conflicting regulation between the FCC and various state and local authorities, which may involve lengthy litigation to resolve and may result in outcomes unfavorable to us. In addition, increased public focus on a variety of issues related to our operations, such as privacy issues, government requests or orders for customer data, and potential global climate changes, have led to proposals or new legislation at state, federal and foreign government levels to change or increase regulation on our operations. Enactment of new privacy laws and regulations could, among other things, adversely affect our ability to collect and offer targeted advertisements, an expected growth area for the company, or result in additional costs of compliance or litigation. Should customers decide that our competitors operate in a more customer-friendly environment, we could be materially adversely affected.

Adoption of new software-based technologies may involve quality and supply chain issues and could increase capital costs.

The communications and digital entertainment industry has experienced rapid changes in the past several years. An increasing number of our customers are using mobile devices as the primary means of viewing video and an increasing number of nontraditional video providers are developing content and technologies to satisfy the desire for video entertainment demand. In addition, businesses and government bodies are broadly shifting to wireless-based services for homes and infrastructure to improve services to their respective customers and constituencies. In order to remain competitive, we now offer a mobile TV service and continue to upgrade our sophisticated wired and wireless networks, including satellites, as well as research other technologies. We are spending significant capital to shift our wired network to software-based technology and are launching a new wireless technology (5G) to address these consumer demands. We are entering into a significant number of software licensing agreements and working with software developers to provide network functions in lieu of installing switches or other physical network equipment in order to respond to rapid developments in video and wireless demand. While software-based functionality can be changed much more quickly than, for example, physical switches, the rapid pace of development means that we may increasingly need to rely on single-source and software solutions that have not previously been deployed in production environments. Should this software not function as intended or our license agreements provide inadequate protection from intellectual property infringement claims, we could be forced to either substitute (if available), or else spend time to develop alternative technologies at a much higher cost and incur harm to our reputation for reliability, and, as a result, our ability to remain competitive could be materially adversely affected.

Continuing growth in and the converging nature of wireless, video and broadband services will require us to deploy increasing amounts of capital and require ongoing access to spectrum in order to provide attractive services to customers.

Wireless, video and broadband services are undergoing rapid and significant technological changes and a dramatic increase in usage, in particular, the demand for faster and seamless usage of video and data across mobile and fixed devices. We must continually invest in our networks in order to improve our wireless, video and broadband services to meet this increasing demand and remain competitive. Improvements in these services depend on many factors, including continued access to and deployment of adequate spectrum and the capital needed to expand our wireline network to support transport of these services. In order to stem broadband subscriber losses to cable competitors in our non-fiber wireline areas, we have been expanding our all-fiber wireline network. We must maintain and expand our network capacity and coverage for transport of video, data and voice between cell and fixed landline sites. To this end, we have participated in spectrum auctions, at increasing financial cost, and continue to deploy software and other technology advancements in order to efficiently invest in our network.

Network service enhancements and product launches may not occur as scheduled or at the cost expected due to many factors, including delays in determining equipment and wireless handset operating standards, supplier delays, software issues, increases in network and handset component costs, regulatory permitting delays for tower sites or enhancements, or labor-related delays. Deployment of new technology also may adversely affect the performance of the network for existing services. If we cannot acquire needed spectrum or deploy the services customers desire on a timely basis with acceptable quality and at adequate cost, then our ability to attract and retain customers, and, therefore, maintain and improve our operating margins, could be materially adversely affected.

Increasing competition for wireless customers could materially adversely affect our operating results.

We have multiple wireless competitors in each of our service areas and compete for customers based principally on service/device offerings, price, network quality, coverage area and customer service. In addition, we are facing growing competition from providers offering services using advanced wireless technologies and IP-based networks as well as traditional wireline networks. We expect market saturation to continue to cause the wireless industry's customer growth rate to moderate in comparison with historical growth rates, leading to increased competition for customers. We also expect that our customers' growing demand for high-speed video and data services will place constraints on our network capacity. This competition and our capacity issues will continue to put pressure on pricing and margins as companies compete for potential customers. Our ability to respond will depend, among other things, on continued improvement in network quality and customer service as well as effective marketing of attractive products and services. These efforts will involve significant expenses and require strategic management decisions on, and timely implementation of, equipment choices, network deployment, and service offerings.

Ongoing changes in the U.S. television industry and consumer viewing patterns could materially adversely affect our operating results.

Our video subsidiaries derive substantial revenues and profits from cable networks and premium pay television services and the production and licensing of television programming to broadcast and cable networks and premium pay television services. The U.S. television industry is continuing to evolve rapidly, with developments in technology leading to new methods for the distribution of video content and changes in when, where and how audiences consume video content. These changes have led to (1) the disruption of the traditional television content distribution model by OTT services, which are increasing in number and some of which have significant and growing subscriber/user bases, and (2) the disruption of the advertising-supported television model resulting from increased video consumption through OTT services, time-shifted viewing of television programming and the use of DVRs to skip advertisements. The number of subscribers to traditional linear programming in the U.S. has been declining in recent years and the U.S. television industry has experienced declines in ratings for programming, which have negatively affected subscription and advertising revenues, and these trends are expected to continue. The popularity of content, whether on television or through movies, is difficult to predict and can change rapidly, and low public acceptance of our television and movie content, including WarnerMedia's content, could adversely affect our results of operations. We are taking steps to mitigate the risks from these changes, such as direct-to-consumer streaming services and new, enhanced advertising opportunities, but there can be no assurance that these and other efforts will be successful in responding to these changes.

Increasing costs to provide video and other services could adversely affect operating margins.

Our operating costs, including customer acquisition and retention costs, could continue to put pressure on margins and customer retention levels. In addition, most of our video programming is provided by other companies and historically the rates they charge us for programming have often increased more than the rate of inflation. In addition, as customer viewing habits shift to mobile and on-demand from linear programming, negotiating licensing rights is increasingly complicated. We are attempting to use our increased scale and access to wireless customers to change this trend but such negotiations are difficult and also may result in programming disruption. If we are unable to restrain these costs or provide programming desired by our customers, it could impact margins and our ability to attract and retain customers. Our WarnerMedia operations, which create and license content to other providers, also may experience increasing difficulties to secure favorable terms, including those related to pricing, positioning and packaging, during affiliate agreement negotiations, which may lead to blackouts of WarnerMedia programming, and WarnerMedia may face greater difficulty in achieving placement of its networks and premium pay television services in smaller bundles or mobile offerings by third parties.

A number of our competitors offering comparable legacy services that rely on alternative technologies and business models are typically subject to less (or no) regulation, and therefore are able to operate with lower costs. These competitors generally can focus on discrete customer segments since they do not have regulatory obligations to provide universal service. Also, these competitors have cost advantages compared to us, due in part to operating on newer, more technically advanced and lower-cost networks and a nonunionized workforce, lower employee benefits and fewer retirees. We have begun initiatives at both the state and federal levels to obtain regulatory approvals, where needed, to transition services from our older copper-based network to an advanced IP-based network. If we do not obtain regulatory approvals for our network transition or obtain approvals with onerous conditions, we could experience significant cost and competitive disadvantages.

Unfavorable litigation or governmental investigation results could require us to pay significant amounts or lead to onerous operating procedures.

We are subject to a number of lawsuits both in the United States and in foreign countries, including, at any particular time, claims relating to antitrust; patent infringement; wage and hour; personal injury; customer privacy violations; regulatory proceedings; and selling and collection practices. We also spend substantial resources complying with various government standards, which may entail related investigations and litigation. In the wireless area, we also face current and potential litigation relating to alleged adverse health effects on customers or employees who use such technologies including, for example, wireless devices. We may incur significant expenses defending such suits or government charges and may be required to pay amounts or otherwise change our operations in ways that could materially adversely affect our operations or financial results.

Cyberattacks, equipment failures, natural disasters and terrorist acts may materially adversely affect our operations.

Cyberattacks, major equipment failures or natural disasters, such as flooding, hurricanes, forest fires and earthquakes whether caused by discrete severe weather events and/or precipitated by long-term climate change, software problems, terrorist acts or other breaches of network or IT security that affect our networks, including software and switches, microwave links, third-party-owned local and long-distance networks on which we rely, our cell sites or other equipment, our satellites, our customer account support and information systems, or employee and business records could have a material adverse effect on our operations. Our wired network in particular is becoming increasingly reliant on software as it evolves to handle increasing demands for video transmission. While we have been subject to security incidents or cyberattacks, these did not result in a material adverse effect on our operations. However, as such attacks continue to increase in scope and frequency, we may be unable to prevent a significant attack in the future. Our ability to maintain and upgrade our video programming also depends on our ability to successfully deploy and operate video satellites. Our inability to deploy or operate our networks or customer support systems could result in significant expenses, potential legal liability, a loss of current or future customers and reputation damage, any of which could have a material adverse effect on our operations and financial condition.

Intellectual property rights may be adversely affected by piracy or be inadequate to take advantage of business opportunities, such as new distribution platforms, which may materially adversely affect our operations.

Increased piracy of video content, products and other intellectual property, particularly in our foreign WarnerMedia and Latin American operations, will decrease revenues. Mobile and broadband technological developments have made it easier to reproduce and distribute high-quality unauthorized copies of content. Piracy is particularly prevalent in countries that lack effective copyright and other legal protections or enforcement measures and thieves can attract users throughout the world. Effective intellectual property protection may not be available in every country in which our businesses operate. We may need to spend significant amounts of money to protect our rights. We are also increasingly negotiating broader licensing agreements to expand our ability to use new methods to distribute content to customers. Any impairment of our intellectual property rights, including due to changes in U.S. or foreign intellectual property laws or the absence of effective legal protections or enforcement measures, or our inability to negotiate broader distribution rights could materially adversely impact our operations.

Our ability to successfully integrate our June 2018 acquisition of Time Warner, including the risk that the cost savings and revenue synergies from the acquisition may not be fully realized or may take longer to realize than expected; higher debt levels we incurred to finance the acquisition and the issuance of additional shares; the addition of Time Warner's existing debt to our balance sheet; disruption from the acquisition making it more difficult to maintain relationships with customers, employees or suppliers; and competition and its effect on pricing, spending, third-party relationships and revenues.

We completed our acquisition of Time Warner in June 2018. We believe that the acquisition will give us the scale, resources and ability to deploy video content more efficiently to more customers than otherwise possible and to provide very attractive integrated offerings of video, broadband and wireless services; compete more effectively against other video providers as well as other technology, media and communications companies; create premium advertising opportunities; and produce cost and revenue synergies. We must integrate a large number of operational and administrative systems, which may involve significant management time and create uncertainty for employees, customers and suppliers. The integration process may also result in significant expenses and charges against earnings, both cash and noncash. This acquisition also has increased the amount of debt on our balance sheet leading to additional interest expense and, due to the additional shares issued, will result in additional cash being required for any dividends declared. Both of these factors could put pressure on our financial flexibility to continue capital investments, develop new services and declare future dividends. In addition, events outside our control, including changes in regulation and laws as well as economic trends, could adversely affect our ability to realize the expected benefits from this acquisition. Following the closing, the U.S. Department of Justice filed an appeal of the court decision allowing us to complete the acquisition; we believe the lower court decision will be upheld.

Our international operations have increased our exposure to both changes in the international economy and to the level of regulation on our business and these risks could offset our expected growth opportunities.

We have international operations, particularly in Mexico and the rest of Latin America, and worldwide through WarnerMedia's content distribution as well as services to our large U.S.-based businesses. We need to comply with a wide variety of, and complex local laws, regulations and treaties and government involvement in private business activity. We are exposed to restrictions on cash repatriation, foreign exchange controls, fluctuations in currency values, changes in relationships between U.S. and foreign governments, trade restrictions including potential border taxes, differences in intellectual property protection laws, and other regulations that may affect materially our earnings. Our Mexico operations in particular rely on a continuation of a regulatory regime that fosters competition. While the countries involved represent significant opportunities to sell our advanced services, a number of these same countries have experienced unstable growth patterns and at times have experienced high inflation, currency devaluation, foreign exchange controls, instability in the banking sector and high unemployment. Should these conditions persist, customers in these countries may be unable to purchase the services we offer or pay for services already provided.

In addition, operating in foreign countries also typically involves participating with local businesses, either to comply with local laws or, for example, to enhance product marketing, deploy networks or execute on other capital projects. Involvement with foreign firms exposes us to the risk of being unable to control the actions of those firms and therefore exposes us to risks associated with our obligation to comply with the Foreign Corrupt Practices Act (FCPA). Violations of the FCPA could have a material adverse effect on our operating results.

Increases in our debt levels to fund acquisitions, additional spectrum purchases, or other strategic decisions could adversely affect our ability to finance future debt at attractive rates and reduce our ability to respond to competition and adverse economic trends.

We have increased the amount of our debt over the last three years to fund significant acquisitions, as well as spectrum purchases needed to compete in our industry. While we believe such decisions were prudent and necessary to take advantage of both growth opportunities and respond to industry developments, we did experience credit-rating downgrades from historical levels. Banks and potential purchasers of our publicly-traded debt may decide that these strategic decisions and similar actions we may take in the future, as well as expected trends in the industry, will continue to increase the risk of investing in our debt and may demand a higher rate of interest, impose restrictive covenants or otherwise limit the amount of potential borrowing.

European Union regulation and reform of "benchmarks," including LIBOR, is ongoing and could have a material adverse effect on the value and return on our variable rate indebtedness.

LIBOR and other interest rate and other types of indices which are deemed to be "benchmarks" are the subject of ongoing international regulatory reform in the European Union. Regulatory changes and the uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based securities. Any changes announced by regulators or any other governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates, as applicable. If that were to occur, the level of interest payments and the value of our variable rate indebtedness may be affected. In addition, on July 27, 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021. Although our variable rate indebtedness may provide for alternative methods of calculating the interest rate payable on such indebtedness if LIBOR is not reported, uncertainty as to the extent and manner of future changes may adversely affect the current trading market for LIBOR-based securities and the value of our variable rate indebtedness.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties, and actual results could differ materially. Many of these factors are discussed in more detail in the "Risk Factors" section. We claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

- Adverse economic and/or capital access changes in the markets served by us or in countries in which we have significant investments, including the impact on customer demand and our ability and our suppliers' ability to access financial markets at favorable rates and terms.
- Changes in available technology and the effects of such changes, including product substitutions and deployment costs.
- Increases in our benefit plans' costs, including increases due to adverse changes in the United States and foreign securities markets, resulting in worse-than-assumed investment returns and discount rates; adverse changes in mortality assumptions; adverse medical cost trends; and unfavorable or delayed implementation or repeal of healthcare legislation, regulations or related court decisions.
- The final outcome of FCC and other federal, state or foreign government agency proceedings (including judicial review, if any, of such proceedings) involving issues that are important to our business, including, without limitation, special access and business data services; pending Notices of Apparent Liability; the transition from legacy technologies to IP-based infrastructure, including the withdrawal of legacy TDM-based services; universal service; broadband deployment; wireless equipment siting regulations; E911 services; competition policy; privacy; net neutrality; multichannel video programming distributor services and equipment; content licensing and copyright protection; availability of new spectrum, on fair and balanced terms; IP licensing, and wireless and satellite license awards and renewals.
- The final outcome of state and federal legislative efforts involving topics that are important to our business, including deregulation of IP-based services, relief from Carrier of Last Resort obligations and elimination of state commission review of the withdrawal of services, internet regulation and privacy issues.
- Enactment of additional state, local, federal and/or foreign regulatory and tax laws and regulations, or changes to existing standards and actions by tax agencies and judicial authorities including the resolution of disputes with any taxing jurisdictions, pertaining to our subsidiaries and foreign investments, including laws and regulations that reduce our incentive to invest in our networks, resulting in lower revenue growth and/or higher operating costs.
- Potential changes to the electromagnetic spectrum currently used for broadcast television and satellite distribution being considered by the FCC could negatively impact WarnerMedia's ability to deliver linear network feeds of its domestic cable networks to its affiliates, and in some cases, WarnerMedia's ability to produce high-value news and entertainment programming on location.
- U.S. and foreign laws and regulations regarding intellectual property rights protection and privacy, personal data protection and user consent are complex and rapidly evolving and could result in impact to our business plans, increased costs, or claims against us that may harm our reputation.
- Our ability to absorb revenue losses caused by increasing competition, including offerings that use alternative technologies or delivery methods (e.g., cable, wireless, VoIP and over-the-top video service), subscriber reluctance to purchase new wireless handsets, and our ability to maintain capital expenditures.
- The extent of competition including from governmental networks and other providers and the resulting pressure on customer totals and segment operating margins.
- Our ability to develop attractive and profitable product/service offerings to offset increasing competition and increasing fragmentation of customer viewing habits.
- The ability of our competitors to offer product/service offerings at lower prices due to lower cost structures and regulatory and legislative actions adverse to us, including non-regulation of comparable alternative technologies (e.g., VoIP and data usage).
- The continued development and delivery of attractive and profitable video and broadband offerings; the extent to which regulatory and build-out requirements apply to our offerings; our ability to match speeds offered by our competitors and the availability, cost and/or reliability of the various technologies and/or content required to provide such offerings.
- Our continued ability to maintain margins, attract and offer a diverse portfolio of video, wireless service and devices and device financing plans.
- Our ability to generate advertising revenue from attractive video content, especially from WarnerMedia, in the face of unpredictable and rapidly evolving public viewing habits.
- The availability, cost and our ability to adequately fund additional wireless spectrum and network upgrades; and regulations and conditions relating to spectrum use, licensing, obtaining additional spectrum, technical standards and deployment and usage, including network management rules.
- Our ability to manage growth in wireless data services, including network quality and acquisition of adequate spectrum at reasonable costs and terms.
- The outcome of pending, threatened or potential litigation (which includes arbitrations), including, without limitation, patent and product safety claims by or against third parties.
- The impact from major equipment failures on our networks, including satellites operated by DIRECTV; the effect of security breaches related to the network or customer information; our inability to obtain handsets, equipment/software or have handsets, equipment/software serviced in a timely and cost-effective manner from suppliers; and in the case of satellites launched, timely provisioning of services from vendors; or severe weather conditions including flooding and hurricanes, natural disasters including earthquakes and forest fires, pandemics, energy shortages, wars or terrorist attacks.
- The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.
- The U.S. Department of Justice prevailing on its appeal of the court decision permitting our acquisition of Time Warner Inc.
- Our ability to successfully integrate our WarnerMedia operations, including the ability to manage various businesses in widely dispersed business locations and with decentralized management.
- Our ability to take advantage of the desire of advertisers to change traditional video advertising models.
- Our increased exposure to foreign economies, including foreign exchange fluctuations as well as regulatory and political uncertainty.
- Changes in our corporate strategies, such as changing network-related requirements or acquisitions and dispositions, which may require significant amounts of cash or stock, to respond to competition and regulatory, legislative and technological developments.
- The uncertainty surrounding further congressional action to address spending reductions, which may result in a significant decrease in government spending and reluctance of businesses and consumers to spend in general.

Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially affect our future earnings.

Consolidated Statements of Income

Dollars in millions except per share amounts

	2018	2017	2016
Operating Revenues			
Service	**$152,345**	$145,597	$148,884
Equipment	**18,411**	14,949	14,902
Total operating revenues	**170,756**	160,546	163,786
Operating Expenses			
Cost of revenues			
Equipment	**19,786**	18,709	18,757
Broadcast, programming and operations	**26,727**	21,159	19,851
Other cost of revenues (exclusive of depreciation and amortization shown separately below)	**32,906**	37,942	38,582
Selling, general and administrative	**36,765**	35,465	36,845
Asset abandonments and impairments	**46**	2,914	361
Depreciation and amortization	**28,430**	24,387	25,847
Total operating expenses	**144,660**	140,576	140,243
Operating Income	**26,096**	19,970	23,543
Other Income (Expense)			
Interest expense	**(7,957)**	(6,300)	(4,910)
Equity in net income (loss) of affiliates	**(48)**	(128)	98
Other income (expense) – net	**6,782**	1,597	1,081
Total other income (expense)	**(1,223)**	(4,831)	(3,731)
Income Before Income Taxes	**24,873**	15,139	19,812
Income tax (benefit) expense	**4,920**	(14,708)	6,479
Net Income	**19,953**	29,847	13,333
Less: Net Income Attributable to Noncontrolling Interest	**(583)**	(397)	(357)
Net Income Attributable to AT&T	**$ 19,370**	$ 29,450	$ 12,976
Basic Earnings Per Share Attributable to AT&T	**$ 2.85**	$ 4.77	$ 2.10
Diluted Earnings Per Share Attributable to AT&T	**$ 2.85**	$ 4.76	$ 2.10

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Dollars in millions

	2018	2017	2016
Net income	**$19,953**	$29,847	$13,333
Other comprehensive income, net of tax:			
Foreign Currency:			
Foreign currency translation adjustment (includes $(32), $(5) and $20 attributable to noncontrolling interest), net of taxes of $(45), $123 and $357	**(1,062)**	15	(777)
Securities:			
Net unrealized gains (losses), net of taxes of $(1), $109 and $36	**(4)**	187	58
Reclassification adjustment included in net income, net of taxes of $0, $(117) and $(1)	**—**	(185)	(1)
Derivative Instruments:			
Net unrealized gains (losses), net of taxes of $(156), $200 and $371	**(597)**	371	690
Reclassification adjustment included in net income, net of taxes of $6, $21 and $21	**13**	39	38
Defined benefit postretirement plans:			
Net prior service credit arising during period, net of taxes of $271, $675 and $305	**830**	1,083	497
Amortization of net prior service credit included in net income, net of taxes of $(431), $(604) and $(525)	**(1,322)**	(988)	(858)
Other comprehensive income (loss)	**(2,142)**	522	(353)
Total comprehensive income	**17,811**	30,369	12,980
Less: Total comprehensive income attributable to noncontrolling interest	**(551)**	(392)	(377)
Total Comprehensive Income Attributable to AT&T	**$17,260**	$29,977	$12,603

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31,	
	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	**$ 5,204**	$ 50,498
Accounts receivable – net of allowances for doubtful accounts of $907 and $663	**26,472**	16,522
Prepaid expenses	**2,047**	1,369
Other current assets	**17,704**	10,757
Total current assets	**51,427**	79,146
Noncurrent inventories and theatrical film and television production costs	**7,713**	—
Property, Plant and Equipment – Net	**131,473**	125,222
Goodwill	**146,370**	105,449
Licenses	**96,144**	96,136
Trademarks and Trade Names – Net	**24,345**	7,021
Distribution Networks – Net	**17,069**	—
Other Intangible Assets – Net	**26,269**	11,119
Investments in and Advances to Equity Affiliates	**6,245**	1,560
Other Assets	**24,809**	18,444
Total Assets	**$531,864**	$444,097
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 10,255**	$ 38,374
Accounts payable and accrued liabilities	**43,184**	34,470
Advanced billings and customer deposits	**5,948**	4,213
Accrued taxes	**1,179**	1,262
Dividends payable	**3,854**	3,070
Total current liabilities	**64,420**	81,389
Long-Term Debt	**166,250**	125,972
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**57,859**	43,207
Postemployment benefit obligation	**19,218**	31,775
Other noncurrent liabilities	**30,233**	19,747
Total deferred credits and other noncurrent liabilities	**107,310**	94,729
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2018 and December 31, 2017: issued 7,620,748,598 at December 31, 2018 and 6,495,231,088 at December 31, 2017)	**7,621**	6,495
Additional paid-in capital	**125,525**	89,563
Retained earnings	**58,753**	50,500
Treasury stock (339,120,073 at December 31, 2018 and 355,806,544 at December 31, 2017, at cost)	**(12,059)**	(12,714)
Accumulated other comprehensive income	**4,249**	7,017
Noncontrolling interest	**9,795**	1,146
Total stockholders' equity	**193,884**	142,007
Total Liabilities and Stockholders' Equity	**$531,864**	$444,097

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Dollars in millions

	2018	2017	2016
Operating Activities			
Net income	**$19,953**	$29,847	$13,333
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**28,430**	24,387	25,847
Amortization of film and television costs	**3,772**	—	—
Undistributed earnings from investments in equity affiliates	**292**	174	(37)
Provision for uncollectible accounts	**1,791**	1,642	1,474
Deferred income tax expense (benefit)	**610**	(15,940)	2,947
Net (gain) loss from sale of investments, net of impairments	**(739)**	(282)	(169)
Actuarial (gain) loss on pension and postretirement benefits	**(3,412)**	1,258	1,024
Asset abandonments and impairments	**46**	2,914	361
Changes in operating assets and liabilities:			
Accounts receivable	**(1,244)**	(986)	(1,003)
Other current assets and theatrical film and television production costs	**(6,442)**	(778)	1,709
Accounts payable and other accrued liabilities	**1,602**	816	118
Equipment installment receivables and related sales	**(490)**	(1,239)	(1,307)
Deferred customer contract acquisition and fulfillment costs	**(3,458)**	(1,422)	(2,359)
Retirement benefit funding	**(500)**	(1,066)	(910)
Other – net	**3,391**	(1,315)	(2,586)
Total adjustments	**23,649**	8,163	25,109
Net Cash Provided by Operating Activities	**43,602**	38,010	38,442
Investing Activities			
Capital expenditures:			
Purchase of property and equipment	**(20,758)**	(20,647)	(21,516)
Interest during construction	**(493)**	(903)	(892)
Acquisitions, net of cash acquired	**(43,309)**	1,123	(2,959)
Dispositions	**2,148**	59	646
(Purchases) sales of securities, net	**(185)**	449	672
Advances to and investments in equity affiliates	**(1,050)**	—	1
Cash collections of deferred purchase price	**500**	976	731
Other	**2**	—	(1)
Net Cash Used in Investing Activities	**(63,145)**	(18,943)	(23,318)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**(821)**	(2)	—
Issuance of other short-term borrowings	**4,898**	—	—
Repayment of other short-term borrowings	**(2,098)**	—	—
Issuance of long-term debt	**41,875**	48,793	10,140
Repayment of long-term debt	**(52,643)**	(12,339)	(10,823)
Purchase of treasury stock	**(609)**	(463)	(512)
Issuance of treasury stock	**745**	33	146
Dividends paid	**(13,410)**	(12,038)	(11,797)
Other	**(3,926)**	1,946	(1,616)
Net Cash (Used in) Provided by Financing Activities	**(25,989)**	25,930	(14,462)
Net (decrease) increase in cash and cash equivalents and restricted cash	**(45,532)**	44,997	662
Cash and cash equivalents and restricted cash beginning of year	**50,932**	5,935	5,273
Cash and Cash Equivalents and Restricted Cash End of Year	**$ 5,400**	$50,932	$ 5,935

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2018		2017		2016	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Issuance of stock	**1,126**	**1,126**	—	—	—	—
Balance at end of year	**7,621**	**$ 7,621**	6,495	$ 6,495	6,495	$ 6,495
Additional Paid-In Capital						
Balance at beginning of year		**$ 89,563**		$ 89,604		$ 89,763
Issuance of common stock		**35,473**		—		—
Issuance of treasury stock		**(115)**		2		(43)
Share-based payments		**604**		(43)		(140)
Changes related to acquisition of interests held by noncontrolling owners		**—**		—		24
Balance at end of year		**$125,525**		$ 89,563		$ 89,604
Retained Earnings						
Balance at beginning of year		**$ 50,500**		$ 34,734		$ 33,671
Net income attributable to AT&T ($2.85, $4.76 and $2.10 per diluted share)		**19,370**		29,450		12,976
Dividends to stockholders ($2.01, $1.97 and $1.93 per share)		**(14,117)**		(12,157)		(11,913)
Cumulative effect of accounting changes and other adjustments		**3,000**		(1,527)		—
Balance at end of year		**$ 58,753**		$ 50,500		$ 34,734
Treasury Stock						
Balance at beginning of year	**(356)**	**$ (12,714)**	(356)	$ (12,659)	(350)	$ (12,592)
Repurchase of common stock	**(20)**	**(692)**	(14)	(551)	(17)	(655)
Issuance of treasury stock	**37**	**1,347**	14	496	11	588
Balance at end of year	**(339)**	**$ (12,059)**	(356)	$ (12,714)	(356)	$ (12,659)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:						
Balance at beginning of year		**$ 7,017**		$ 4,961		$ 5,334
Other comprehensive income (loss) attributable to AT&T		**(2,110)**		527		(373)
Amounts reclassified to retained earnings		**(658)**		1,529		—
Balance at end of year		**$ 4,249**		$ 7,017		$ 4,961
Noncontrolling Interest:						
Balance at beginning of year		**$ 1,146**		$ 975		$ 969
Net income attributable to noncontrolling interest		**583**		397		357
Interest acquired by noncontrolling owners		**8,803**		—		—
Acquisitions of noncontrolling interests		**1**		140		—
Distributions		**(732)**		(361)		(346)
Acquisition of interests held by noncontrolling owners		**(9)**		—		(25)
Translation adjustments attributable to noncontrolling interest, net of taxes		**(32)**		(5)		20
Cumulative effect of accounting changes and other adjustments		**35**		—		—
Balance at end of year		**$ 9,795**		$ 1,146		$ 975
Total Stockholders' Equity at beginning of year		**$142,007**		$124,110		$123,640
Total Stockholders' Equity at end of year		**$193,884**		$142,007		$124,110

The accompanying notes are an integral part of the consolidated financial statements.