AT&T INC. FINANCIAL REVIEW 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates, including the results of Time Warner Inc. (referred to as "Time Warner" or "WarnerMedia"), which was acquired on June 14, 2018 (see Note 6). AT&T is a holding company whose subsidiaries and affiliates operate worldwide in the telecommunications, media and technology industries.

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

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. Certain prior period amounts have been conformed to the current period's presentation, including changes in our reportable segments (see Note 4).

Adopted Accounting Standards and Other Accounting Changes

Revenue Recognition As of January 1, 2018, we adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," as modified (ASC 606), using the modified retrospective method, which does not allow us to adjust prior periods. We applied the rules to all open contracts existing as of January 1, 2018, recording an increase of $2,342 to retained earnings for the cumulative effect of the change, with an offsetting contract asset of $1,737, deferred contract acquisition costs of $1,454, other asset reductions of $239, other liability reductions of $212, deferred income tax liability of $787 and increase to noncontrolling interest of $35. (See Note 5)

Dollars in millions except per share amounts

Pension and Other Postretirement Benefits As of January 1, 2018, we adopted, with retrospective application, ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07). We are no longer allowed to present the interest, estimated return on assets and amortization of prior service credits components of our net periodic benefit cost in our consolidated operating expenses, but rather are required to include those amounts in "other income (expense) – net" in our consolidated statements of income. We continue to present service costs with the associated compensation costs within our operating expenses. As a practical expedient, we used the amounts disclosed as the estimated basis for applying the retrospective presentation requirement. See Note 14 for our components of net periodic benefit cost.

The following table presents our results under our historical method and as adjusted to reflect ASU 2017-07 **(presentation of benefit cost):**

	Pension and Postretirement Benefits		
	Historical Accounting Method	Effect of Adoption of ASU 2017-07	As Adjusted
For the year ended December 31, 2018			
Consolidated Statements of Income			
Other cost of revenues	$31,533	$ 1,373	**$32,906**
Selling, general and administrative expenses	32,416	4,349	**36,765**
Operating Income	31,818	(5,722)	**26,096**
Other Income (Expense) – net	1,060	5,722	**6,782**
Net Income	19,953	—	**19,953**
For the year ended December 31, 2017			
Consolidated Statements of Income			
Other cost of revenues	$37,511	$ 431	**$37,942**
Selling, general and administrative expenses	34,917	548	**35,465**
Operating Income	20,949	(979)	**19,970**
Other Income (Expense) – net	618	979	**1,597**
Net Income	29,847	—	**29,847**
For the year ended December 31, 2016			
Consolidated Statements of Income			
Other cost of revenues	$38,276	$ 306	**$38,582**
Selling, general and administrative expenses	36,347	498	**36,845**
Operating Income	24,347	(804)	**23,543**
Other Income (Expense) – net	277	804	**1,081**
Net Income	13,333	—	**13,333**

Cash Flows As of January 1, 2018, we adopted, with retrospective application, ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" (ASU 2016-15). Under ASU 2016-15, we continue to recognize cash receipts on owned equipment installment receivables as cash flows from operations. However, cash receipts on the deferred purchase price described in Note 17 are now required to be classified as cash flows from investing activities instead of cash flows from operating activities.

As of January 1, 2018, we adopted, with retrospective application, ASU No. 2016-18, "Statement of Cash Flows (Topic 230) – Restricted Cash," (ASU 2016-18). The primary impact of ASU 2016-18 was to require us to include restricted cash in our reconciliation of beginning and ending cash and cash equivalents (restricted and unrestricted) on the face of our consolidated statements of cash flows. (See Note 21)

The following table presents our results under our historical method and as adjusted to reflect ASU 2016-15 **(cash receipts on deferred purchase price)** and ASU 2016-18 **(restricted cash):**

	Cash Flows			
	Historical Accounting Method	Effect of Adoption of ASU 2016-15	Effect of Adoption of ASU 2016-18	As Adjusted
For the year ended December 31, 2018				
Consolidated Statements of Cash Flows				
Changes in other current assets	$ (6,446)	$ —	$ 4	**$ (6,442)**
Equipment installment receivables and related sales	10	(500)	—	**(490)**
Other – net	3,520	—	(129)	**3,391**
Cash Provided by (Used in) Operating Activities	44,227	(500)	(125)	**43,602**
(Purchases) sales of securities – net	7	—	(192)	**(185)**
Cash collections of deferred purchase price	—	500	—	**500**
Cash (Used in) Provided by Investing Activities	(63,453)	500	(192)	**(63,145)**
Change in cash and cash equivalents and restricted cash	(45,215)	—	(317)	**(45,532)**
For the year ended December 31, 2017				
Consolidated Statements of Cash Flows				
Changes in other current assets	$ (777)	$ —	$ (1)	**$ (778)**
Equipment installment receivables and related sales	(263)	(976)	—	**(1,239)**
Other – net	(1,151)	—	(164)	**(1,315)**
Cash Provided by (Used in) Operating Activities	39,151	(976)	(165)	**38,010**
(Purchases) sales of securities – net	(4)	—	453	**449**
Cash collections of deferred purchase price	—	976	—	**976**
Cash (Used in) Provided by Investing Activities	(20,372)	976	453	**(18,943)**
Change in cash and cash equivalents and restricted cash	44,710	—	287	**44,997**
For the year ended December 31, 2016				
Consolidated Statements of Cash Flows				
Changes in other current assets	$ 1,708	$ —	$ 1	**$ 1,709**
Equipment installment receivables and related sales	(576)	(731)	—	**(1,307)**
Other – net	(2,414)	—	(172)	**(2,586)**
Cash Provided by (Used in) Operating Activities	39,344	(731)	(171)	**38,442**
(Purchases) sales of securities – net	506	—	166	**672**
Cash collections of deferred purchase price	—	731	—	**731**
Cash (Used in) Provided by Investing Activities	(24,215)	731	166	**(23,318)**
Change in cash and cash equivalents and restricted cash	667	—	(5)	**662**

Financial Instruments As of January 1, 2018, we adopted ASU No. 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01), which requires us to prospectively record changes in the fair value of our equity investments, except for those accounted for under the equity method, in net income instead of in accumulated other comprehensive income. As of January 1, 2018, we recorded an increase of $658 in retained earnings for the cumulative effect of the adoption of ASU 2016-01, with an offset to accumulated other comprehensive income (accumulated OCI).

Customer Fulfillment Costs During the second quarter of 2018, we updated our analysis of economic lives of customer relationships. As of April 1, 2018, we extended the amortization period to 58 months to better reflect the estimated economic lives of our Entertainment Group customers. This change in accounting estimate decreased other cost of revenues, which had an impact on net income of $338, or $0.05 per diluted share, in 2018.

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

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act reduced the U.S. federal corporate income tax rate from 35% to 21% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. Recognizing the late enactment of the Act and complexity of accurately accounting for its impact, the Securities and Exchange Commission (SEC) in Staff Accounting Bulletin (SAB) 118 provided guidance that allowed registrants to provide a reasonable estimate of the impact to their financial statements and adjust the reported impact in a measurement period not to exceed one year. We included the estimated impact of the Act in our financial results at or for the period ended December 31, 2017, with additional adjustments recorded in 2018. (See Note 13)

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement– Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" (ASU 2018-02), which allows entities the option to reclassify from accumulated other comprehensive income (accumulated OCI) to retained earnings the stranded tax effects resulting from the application of the Act. We elected to adopt ASU 2018-02 in the period in which the estimated income tax effects of the Act were recognized, reflecting a $1,529 adjustment for 2017 in the consolidated statements of changes in stockholders' equity. (See Note 3)

Cash and Cash Equivalents Cash and cash equivalents include all highly liquid investments with original maturities of three months or less. The carrying amounts approximate fair value. At December 31, 2018, we held $3,130 in cash and $2,074 in money market funds and other cash equivalents. Of our total cash and cash equivalents, $1,930 resided in foreign jurisdictions, some of which is subject to restrictions on repatriation.

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

Equipment Inventory Equipment inventories, which primarily consist of wireless devices and accessories, are included in "Other current assets" on our consolidated balance sheets. Equipment inventories are valued at the lower of cost or net realizable value and were $2,771 at December 31, 2018 and $2,225 at December 31, 2017.

Licensed Programming Inventory Cost Recognition and Impairment We enter into agreements to license programming exhibition rights from licensors. A programming inventory asset related to these rights and a corresponding liability payable to the licensor are recorded (on a discounted basis if the license agreements are long-term) when (i) the cost of the programming is reasonably determined, (ii) the programming material has been accepted in accordance with the terms of the agreement, (iii) the programming is available for its first showing or telecast, and (iv) the license period has commenced. There are variations in the amortization methods of these rights, depending on whether the network is advertising-supported (e.g., TNT and TBS) or not advertising-supported (e.g., HBO and Turner Classic Movies).

For the advertising-supported networks, our general policy is to amortize each program's costs on a straight-line basis (or per-play basis, if greater) over its license period. In circumstances where the initial airing of the program has more value than subsequent airings, an accelerated method of amortization is used. The accelerated amortization upon the first airing versus subsequent airings is determined based on a study of historical and estimated future advertising sales for similar programming. For rights fees paid for sports programming arrangements, such rights fees are amortized using a revenue-forecast model, in which the rights fees are amortized using the ratio of current period advertising revenue to total estimated remaining advertising revenue over the term of the arrangement.

For premium pay television and over-the-top (OTT) services that are not advertising-supported, each licensed program's costs are amortized on a straight-line basis over its license period or estimated period of use, beginning with the month of initial exhibition. When we have the right to exhibit feature theatrical programming in multiple windows over a number of years, historical audience viewership is used as the basis for determining the amount of programming amortization attributable to each window.

Licensed programming inventory, which is included in "Other current assets" and "Noncurrent inventories and theatrical film and television production costs" on our consolidated balance sheet, is carried at the lower of unamortized cost or estimated net realizable value. For networks that generate both advertising and subscription revenues, the net realizable value of unamortized programming costs is generally evaluated based on the network's programming taken as a whole. In assessing whether the programming inventory for a particular advertising-supported network is impaired, the net realizable value for all of the network's programming inventory is determined based on a projection of the network's profitability. This assessment would occur upon the occurrence of certain triggering events. Similarly, for premium pay television and OTT services that are not advertising-supported, an evaluation of the net realizable value of unamortized programming costs is performed based on the premium pay television and OTT services' licensed programming taken as a whole. Specifically, the net realizable value for all premium pay television and OTT service licensed programming is determined based on projections of estimated subscription revenues less certain costs of delivering and distributing the licensed programming. Changes in management's intended usage of a specific program, such as a decision to no longer exhibit that program and forgo the use of the rights associated with the program license, results in a reassessment of that program's net realizable value, which could result in an impairment. (See Note 10)

Film and Television Production Cost Recognition, Participations and Residuals and Impairments

Film and television production costs, which are part of "Other current assets" and "Noncurrent inventories and theatrical film and television production costs" on our consolidated balance sheet, include the unamortized cost of completed theatrical films and television episodes, theatrical films and television series in production and undeveloped film and television rights. Film and television production costs are stated at the lower of cost, less accumulated amortization, or fair value. The amount of capitalized film and television production costs and the amount of participations and residuals to be recognized as broadcast, programming and operations expenses for a given film or television series in a particular period is determined using the film forecast computation method. Under this method, the amortization of capitalized costs and the accrual of participations and residuals is based on the proportion of the film's revenues recognized for such period to the film's estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a film's life cycle). Under current GAAP, the amount of capitalized television production costs cannot exceed contracted revenues for a given television series.

The process of estimating a film's ultimate revenues requires us to make a series of judgments related to future revenue-generating activities associated with a particular film. We estimate the ultimate revenues, less additional costs to be incurred (including exploitation and participation costs), in order to determine whether the value of a film or television series is impaired and requires an immediate write-off of unrecoverable film and television production costs. To the extent that the ultimate revenues are adjusted, the resulting gross margin reported on the exploitation of that film or television series in a period is also adjusted.

Prior to the theatrical release of a film, our estimates are based on factors such as the historical performance of similar films, the star power of the lead actors, the rating and genre of the film, pre-release market research (including test market screenings), international distribution plans and the expected number of theaters in which the film will be released. In the absence of revenues directly related to the exhibition of owned film or television programs on our television networks, premium pay television or OTT services, we estimate a portion of the unamortized costs that are representative of the utilization of that film or television program in that exhibition and expense such costs as the film or television program is exhibited. The period over which ultimate revenues are estimated is generally not to exceed ten years from the initial release of a motion picture or from the date of delivery of the first episode of an episodic television series. Estimates are updated based on information available during the film's production and, upon release, the actual results of each film.

Property, Plant and Equipment Property, plant and equipment is stated at cost, except for assets acquired using acquisition accounting, which are initially recorded at fair value (see Note 7). The cost of additions and substantial improvements to property, plant and equipment is capitalized, and includes internal compensation costs for these projects. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment costs are depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology. Accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation, and no gain or loss is recognized on the disposition of these assets.

Property, plant and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. We recognize an impairment loss when the carrying amount of a long-lived asset is not recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. See Note 7 for a discussion of asset abandonments and impairments.

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

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

We amortize our capitalized software costs over a three-year to seven-year period, reflecting the estimated period during which these assets will remain in service.

Goodwill and Other Intangible Assets We have the following major classes of intangible assets: goodwill; licenses, which include Federal Communications Commission (FCC) and other wireless licenses and orbital slots; distribution networks; film and television libraries; intellectual properties and franchises; trademarks and trade names; customer lists; and various other finite-lived intangible assets (see Note 8).

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

Goodwill, licenses and other indefinite-lived intangible assets are not amortized but are tested at least annually for impairment. The testing is performed on the value as of October 1 each year, and compares the book values of the assets to their fair values. Goodwill is tested by comparing the book value of each reporting unit, deemed to be our principal operating segments or one level below them, to the fair value using both discounted cash flow as well as market multiple approaches. Wireless licenses are tested on an aggregate basis, consistent with our use of the licenses on a national scope, using a discounted cash flow approach. Orbital slots are similarly aggregated for purposes of impairment testing. Trade names are tested by comparing their book values to their fair values calculated using a discounted cash flow approach on a presumed royalty rate derived from the revenues related to each brand name.

Intangible assets that have finite useful lives are amortized over their useful lives (see Note 8). Customer lists and relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the period in which those relationships are expected to contribute to our future cash flows. Finite-lived trademarks and trade names and distribution networks are amortized using the straight-line method over the estimated useful life of the assets. Film library is amortized using the film forecast computation method, as previously disclosed. The remaining finite-lived intangible assets are generally amortized using the straight-line method.

Advertising Costs We expense advertising costs for products and services or for promoting our corporate image as we incur them (see Note 21).

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

We hedge a portion of the foreign currency exchange risk involved in certain foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 12).

Pension and Other Postretirement Benefits See Note 14 for a comprehensive discussion of our pension and postretirement benefit expense, including a discussion of the actuarial assumptions, our policy for recognizing the associated gains and losses and our method used to estimate service and interest cost components.

New Accounting Standards

Leases Beginning with 2019 interim reporting, we will adopt ASU No. 2016-02, "Leases (Topic 842)," as modified (ASC 842), which replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASC 842 requires lessees to recognize most leases on their balance sheets as liabilities, with corresponding "right-of-use" assets. For income statement recognition purposes, leases will be classified as either a finance or an operating lease without relying upon the bright-line tests under current GAAP.

The key change upon adoption of the standard will be balance sheet recognition, as the recognition of lease expense on our income statement will be similar to our current accounting. We will adopt the new leasing standard using a modified retrospective transition method as of the beginning of the period of adoption; therefore, we will not adjust the balance sheet for comparative periods but will record a cumulative effect adjustment to retained earnings on January 1, 2019. We will elect the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allows us to carry forward our historical lease classification. We will also elect the practical expedient related to land easements, allowing us to carry forward our current accounting treatment for land easements on existing agreements that were not accounted for as leases. We will exclude all the leases with original maturities of one year or less.

Additionally, we have elected to not separate lease and non-lease components for certain classes of assets in arrangements where we are the lessee and for certain classes of assets where we are the lessor. We do not expect our accounting for finance leases to change from our current accounting for capital leases.

We have estimated the adoption will result in a right-of-use asset and corresponding lease liability on our consolidated balance sheet in the range of $20,000 to $25,000. We do not believe the standard will materially impact the income statement or have a notable impact on our liquidity. The standard will have no impact on our debt-covenant compliance under our current agreements.

NOTE 2. EARNINGS PER SHARE

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

Year Ended December 31,	**2018**	2017	2016
Numerators			
Numerator for basic earnings per share:			
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
Dilutive potential common shares:			
Share-based payment	**19**	13	13
Numerator for diluted earnings per share	**$19,389**	$29,463	$12,989
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	**6,778**	6,164	6,168
Dilutive potential common shares:			
Share-based payment (in shares)	**28**	19	21
Denominator for diluted earnings per share	**6,806**	6,183	6,189
Basic earnings per share attributable to AT&T	**$ 2.85**	$ 4.77	$ 2.10
Diluted earnings per share attributable to AT&T	**$ 2.85**	$ 4.76	$ 2.10

Dollars in millions except per share amounts

NOTE 3. OTHER COMPREHENSIVE INCOME

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

	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of December 31, 2015	$ (1,198)	$ 484	$ 16	$ 6,032	$ 5,334
Other comprehensive income (loss) before reclassifications	(797)	58	690	497	448
Amounts reclassified from accumulated OCI	—[1]	(1)[1]	38[2]	(858)[3]	(821)
Net other comprehensive income (loss)	(797)	57	728	(361)	(373)
Balance as of December 31, 2016	(1,995)	541	744	5,671	4,961
Other comprehensive income (loss) before reclassifications	20	187	371	1,083	1,661
Amounts reclassified from accumulated OCI	—[1]	(185)[1]	39[2]	(988)[3]	(1,134)
Net other comprehensive income (loss)	20	2	410	95	527
Amounts reclassified to retained earnings[4]	(79)	117	248	1,243	1,529
Balance as of December 31, 2017	(2,054)	660	1,402	7,009	7,017
Other comprehensive income (loss) before reclassifications	(1,030)	(4)	(597)	830	(801)
Amounts reclassified from accumulated OCI	—[1]	—[1]	13[2]	(1,322)[3]	(1,309)
Net other comprehensive income (loss)	(1,030)	(4)	(584)	(492)	(2,110)
Amounts reclassified to retained earnings[5]	—	(658)	—	—	(658)
Balance as of December 31, 2018	**$(3,084)**	**$ (2)**	**$ 818**	**$6,517**	**$4,249**

[1] (Gains) losses are included in Other income (expense) – net in the consolidated statements of income.
[2] (Gains) losses are included in Interest expense in the consolidated statements of income (see Note 12).
[3] The amortization of prior service credits associated with postretirement benefits are included in Other income (expense) in the consolidated statements of income (see Note 14).
[4] With the adoption of ASU 2018-02, the stranded tax effects resulting from the application of the Tax Cuts and Jobs Act are reclassified to retained earnings (see Note 1).
[5] With the adoption of ASU 2016-01, the unrealized (gains) losses on our equity investments are reclassified to retained earnings (see Note 1).

NOTE 4. SEGMENT INFORMATION

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

We also evaluate segment and business unit performance based on EBITDA and/or EBITDA margin, which is defined as 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.

Due to organizational changes in 2018, including our June 14, 2018 acquisition of Time Warner, we revised our operating segments to align with the new management structure and organizational responsibilities, and have accordingly recast our segment disclosures for all periods presented.

With our acquisition of Time Warner, programming released on or before the June 14, 2018 acquisition date was recorded at fair value as an intangible asset (see Note 6). For consolidated reporting, all amortization of pre-acquisition released programming is reported as amortization expense on our consolidated income statement. To best present comparable results, we report the historical content production cost amortization as operations and support expense within the WarnerMedia segment. For the 200-day period ended December 31, 2018, historical content production cost amortization reported in the segment results was $3,314, of which $1,416 was for pre-acquisition released programming.

The ***Communications segment*** provides wireless and wireline telecom, video and broadband services to consumers located in the U.S. or in U.S. territories and businesses globally. This segment contains the following business units:

- **Mobility** provides nationwide wireless service and equipment.
- **Entertainment Group** provides video, including OTT services, broadband and voice communications services primarily to residential customers. This segment also sells advertising on DIRECTV and U-verse distribution platforms.
- **Business Wireline** provides advanced IP-based services, as well as traditional voice and data services to business customers.

The ***WarnerMedia segment*** develops, produces and distributes feature films, television, gaming and other content in various physical and digital formats globally. Historical financial results from AT&T's Regional Sports Networks (RSN) and equity investments (predominantly Game Show Network and Otter Media), previously included in Entertainment Group, have been reclassified into the WarnerMedia segment and are combined with the Time Warner operations for the period subsequent to our acquisition on June 14, 2018. This segment contains the following business units:

- **Turner** is comprised of the historic Turner division as well as the financial results of our RSN. This business unit primarily operates multichannel basic television networks and digital properties. Turner also sells advertising on its networks and digital properties.
- **Home Box Office** consists of premium pay television and OTT services domestically and premium pay, basic tier television and OTT services internationally, as well as content licensing and home entertainment.
- **Warner Bros**. consists of the production, distribution and licensing of television programming and feature films, the distribution of home entertainment products and the production and distribution of games.

The ***Latin America 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*** provides advertising services and includes our recently acquired AppNexus. These services utilize data insights to develop higher-value targeted advertising. Certain revenues in this segment are also reported by the Communications segment and are eliminated upon consolidation.

Corporate and Other reconcile our segment results to consolidated operating income and income before income taxes, and include:

- *Corporate,* which consists of: (1) businesses no longer integral to our operations or which we no longer actively market, (2) corporate support functions, (3) impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, (4) the reclassification of the amortization of prior service credits, which we continue to report with segment operating expenses, to consolidated other income (expense) and (5) the recharacterization of programming intangible asset amortization, for released programming acquired in the Time Warner acquisition, which we continue to report within WarnerMedia segment operating expense, to consolidated amortization expense.
- *Acquisition-related items* which consists of items associated with the merger and integration of acquired businesses, including amortization of intangible assets.
- *Certain significant items* includes (1) employee separation charges associated with voluntary and/or strategic offers, (2) losses resulting from abandonment or impairment of assets and (3) other items for which the segments are not being evaluated.
- *Eliminations and consolidations*, which (1) removes transactions involving dealings between our segments, including content licensing between WarnerMedia and Communications, and (2) includes adjustments for our reporting of the advertising business.

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

Dollars in millions except per share amounts

For the year ended December 31, 2018	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Communications							
Mobility	**$ 71,344**	**$ 41,266**	**$30,078**	**$ 8,355**	**$21,723**	**$ (1)**	**$21,722**
Entertainment Group	**46,460**	**36,430**	**10,030**	**5,315**	**4,715**	**(2)**	**4,713**
Business Wireline	**26,827**	**16,245**	**10,582**	**4,754**	**5,828**	**(1)**	**5,827**
Total Communications	**144,631**	**93,941**	**50,690**	**18,424**	**32,266**	**(4)**	**32,262**
WarnerMedia							
Turner	**6,979**	**3,794**	**3,185**	**131**	**3,054**	**54**	**3,108**
Home Box Office	**3,598**	**2,187**	**1,411**	**56**	**1,355**	**29**	**1,384**
Warner Bros.	**8,703**	**7,130**	**1,573**	**96**	**1,477**	**(28)**	**1,449**
Other	**(339)**	**(145)**	**(194)**	**22**	**(216)**	**(30)**	**(246)**
Total WarnerMedia	**18,941**	**12,966**	**5,975**	**305**	**5,670**	**25**	**5,695**
Latin America							
Vrio	**4,784**	**3,743**	**1,041**	**728**	**313**	**34**	**347**
Mexico	**2,868**	**3,415**	**(547)**	**510**	**(1,057)**	**—**	**(1,057)**
Total Latin America	**7,652**	**7,158**	**494**	**1,238**	**(744)**	**34**	**(710)**
Xandr	**1,740**	**398**	**1,342**	**9**	**1,333**	**—**	**1,333**
Segment Total	**172,964**	**114,463**	**58,501**	**19,976**	**38,525**	**$55**	**$38,580**
Corporate and Other							
Corporate	**1,240**	**1,630**	**(390)**	**1,498**	**(1,888)**		
Acquisition-related items	**(49)**	**1,185**	**(1,234)**	**6,931**	**(8,165)**		
Certain significant items	**—**	**899**	**(899)**	**26**	**(925)**		
Eliminations and consolidations	**(3,399)**	**(1,947)**	**(1,452)**	**(1)**	**(1,451)**		
AT&T Inc.	**$170,756**	**$116,230**	**$54,526**	**$28,430**	**$26,096**		

For the year ended December 31, 2017	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Communications							
Mobility	$ 71,090	$ 42,871	$28,219	$ 8,015	$20,204	$ —	$20,204
Entertainment Group	49,995	38,903	11,092	5,621	5,471	—	5,471
Business Wireline	29,293	18,492	10,801	4,789	6,012	(2)	6,010
Total Communications	150,378	100,266	50,112	18,425	31,687	(2)	31,685
WarnerMedia							
Turner	430	331	99	4	95	45	140
Home Box Office	—	—	—	—	—	—	—
Warner Bros.	—	—	—	—	—	—	—
Other	—	4	(4)	—	(4)	(74)	(78)
Total WarnerMedia	430	335	95	4	91	(29)	62
Latin America							
Vrio	5,456	4,172	1,284	849	435	87	522
Mexico	2,813	3,232	(419)	369	(788)	—	(788)
Total Latin America	8,269	7,404	865	1,218	(353)	87	(266)
Xandr	1,373	169	1,204	2	1,202	—	1,202
Segment Total	160,450	108,174	52,276	19,649	32,627	$ 56	$32,683
Corporate and Other							
Corporate	1,522	3,306	(1,784)	97	(1,881)		
Acquisition-related items	—	798	(798)	4,608	(5,406)		
Certain significant items	(243)	3,880	(4,123)	33	(4,156)		
Eliminations and consolidations	(1,183)	31	(1,214)	—	(1,214)		
AT&T Inc.	$160,546	$116,189	$44,357	$24,387	$19,970		

For the year ended December 31, 2016

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Communications							
Mobility	$ 72,587	$ 43,567	$29,020	$ 8,277	$20,743	$ —	$20,743
Entertainment Group	50,660	38,909	11,751	5,861	5,890	8	5,898
Business Wireline	30,985	19,954	11,031	5,235	5,796	—	5,796
Total Communications	154,232	102,430	51,802	19,373	32,429	8	32,437
WarnerMedia							
Turner	418	318	100	5	95	52	147
Home Box Office	—	—	—	—	—	—	—
Warner Bros.	—	—	—	—	—	—	—
Other	—	—	—	—	—	(51)	(51)
Total WarnerMedia	418	318	100	5	95	1	96
Latin America							
Vrio	4,910	3,847	1,063	834	229	52	281
Mexico	2,373	2,983	(610)	332	(942)	—	(942)
Total Latin America	7,283	6,830	453	1,166	(713)	52	(661)
Xandr	1,333	99	1,234	1	1,233	—	1,233
Segment Total	163,266	109,677	53,589	20,545	33,044	$ 61	$33,105
Corporate and Other							
Corporate	1,754	3,458	(1,704)	97	(1,801)		
Acquisition-related items	—	1,203	(1,203)	5,177	(6,380)		
Certain significant items	(23)	35	(58)	29	(87)		
Eliminations and consolidations	(1,211)	23	(1,234)	(1)	(1,233)		
AT&T Inc.	$163,786	$114,396	$49,390	$25,847	$23,543		

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

	2018	2017	2016
Communications	**$32,262**	$31,685	$32,437
WarnerMedia	**5,695**	62	96
Latin America	**(710)**	(266)	(661)
Xandr	**1,333**	1,202	1,233
Segment Contribution	**38,580**	32,683	33,105
Reconciling Items:			
Corporate and Other	**(1,888)**	(1,881)	(1,801)
Merger and integration items	**(1,234)**	(798)	(1,203)
Amortization of intangibles acquired	**(6,931)**	(4,608)	(5,177)
Employee separation charges	**(587)**	(445)	(344)
Gain on wireless spectrum transactions	**—**	181	714
Natural disaster items	**(181)**	(626)	(67)
Impairments and other charges	**(157)**	(3,046)	(390)
Tax reform special bonus	**—**	(220)	—
Segment equity in net income of affiliates	**(55)**	(56)	(61)
Eliminations and consolidations	**(1,451)**	(1,214)	(1,233)
AT&T Operating Income	**26,096**	19,970	23,543
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
Income Before Income Taxes	**$24,873**	$15,139	$19,812

Dollars in millions except per share amounts

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

	2018		2017		2016	
	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment
United States	**$154,795**	**$123,457**	$149,841	$118,200	$154,039	$118,664
Europe	**4,073**	**1,634**	1,064	392	1,122	374
Mexico	**3,100**	**3,467**	2,913	3,619	2,472	2,520
Brazil	**2,724**	**1,213**	2,948	1,447	2,797	1,265
Asia/Pacific Rim	**2,214**	**408**	829	194	817	189
All other Latin America	**3,055**	**1,217**	2,743	1,294	2,348	1,828
Other	**795**	**77**	208	76	191	59
Total	**$170,756**	**$131,473**	$160,546	$125,222	$163,786	$124,899

The following tables present intersegment revenues, assets, investments in equity affiliates and capital expenditures by segment.

Intersegment Reconciliation

	2018	2017	2016
Intersegment revenues			
Communications	**$ 13**	$ —	$ —
WarnerMedia	**1,875**	134	134
Latin America	**—**	—	—
Xandr	**—**	—	—
Total Intersegment Revenues	**1,888**	134	134
Consolidations	**1,511**	1,049	1,077
Eliminations and consolidations	**$3,399**	$1,183	$1,211

At or for the year ended December 31, 2018	**Assets**	**Investments in Equity Method Investees**	**Capital Expenditures**
Communications	**$485,360**	**$ 3**	**$19,509**
WarnerMedia	**132,453**	**5,547**	**581**
Latin America	**18,148**	**677**	**745**
Xandr	**2,718**	**—**	**106**
Corporate and eliminations	**(106,815)**	**18**	**310**
Total	**$531,864**	**$6,245**	**$21,251**

NOTE 5. REVENUE RECOGNITION

As of January 1, 2018, we adopted ASC 606. With our adoption of ASC 606, we made a policy election to record certain regulatory fees, primarily Universal Service Fund (USF) fees, on a net basis. We report our revenues net of sales taxes.

When implementing ASC 606, we utilized the practical expedient allowing us to reflect the aggregate effect of all contract modifications occurring before the beginning of the earliest period presented when allocating the transaction price to performance obligations.

Wireless, Advanced Data, Legacy Voice & Data Services and Equipment Revenue We offer service-only contracts and contracts that bundle equipment used to access the services and/or with other service offerings. Some contracts have fixed terms and others are cancellable on a short-term basis (i.e., month-to-month arrangements).

Examples of service revenues include wireless, video entertainment (e.g., AT&T U-verse and DIRECTV), strategic services (e.g., virtual private network service), and legacy voice and data (e.g., traditional local and long-distance). These services represent a series of distinct services that is considered a separate performance obligation. Service revenue is recognized when services are provided, based upon either usage (e.g., minutes of traffic/bytes of data processed) or period of time (e.g., monthly service fees).

Some of our services require customer premises equipment that, when combined and integrated with AT&T's specific network infrastructure, facilitate the delivery of service to the customer. In evaluating whether the equipment is a separate performance obligation, we consider the customer's ability to benefit from the equipment on its own or together with other readily available resources and if so, whether the service and equipment are separately identifiable (i.e., is the service highly dependent on, or highly interrelated with the equipment). When the equipment does not meet the criteria to be a distinct performance obligation (e.g., equipment associated with certain video services), we allocate the total transaction price to the related service. When equipment is a distinct performance obligation, we record the sale of equipment when title has passed and the products are accepted by the customer. For devices sold through indirect channels (e.g., national dealers), revenue is recognized when the dealer accepts the device, not upon activation.

Our equipment and service revenues are predominantly recognized on a gross basis, as most of our services do not involve a third party and we typically control the equipment that is sold to our customers.

Revenue recognized from fixed term contracts that bundle services and/or equipment is allocated based on the standalone selling price of all required performance obligations of the contract (i.e., each item included in the bundle). Promotional discounts are attributed to each required component of the arrangement, resulting in recognition over the contract term. Standalone selling prices are determined by assessing prices paid for service-only contracts (e.g., arrangements where customers bring their own devices) and standalone device pricing.

We offer the majority of our customers the option to purchase certain wireless devices in installments over a specified period of time, and, in many cases, they may be eligible to trade in the original equipment for a new device and have the remaining unpaid balance paid or settled. For customers that elect these equipment installment payment programs, at the point of sale, we recognize revenue for the entire amount of revenue allocated to the customer receivable net of fair value of the trade-in right guarantee. The difference between the revenue recognized and the consideration received is recorded as a note receivable when the devices are not discounted and our right to consideration is unconditional. When installment sales include promotional discounts (e.g., “buy one get one free”), the difference between revenue recognized and consideration received is recorded as a contract asset to be amortized over the contract term.

Less commonly, we offer certain customers highly discounted devices when they enter into a minimum service agreement term. For these contracts, we recognize equipment revenue at the point of sale based on a standalone selling price allocation. The difference between the revenue recognized and the cash received is recorded as a contract asset that will amortize over the contract term.

Our contracts allow for customers to frequently modify their arrangement, without incurring penalties in many cases. When a contract is modified, we evaluate the change in scope or price of the contract to determine if the modification should be treated as a new contract or if it should be considered a change of the existing contract. We generally do not have significant impacts from contract modifications.

Revenues from transactions between us and our customers are recorded net of revenue-based regulatory fees and taxes. Cash incentives given to customers are recorded as a reduction of revenue. Nonrefundable, upfront service activation and setup fees associated with service arrangements are deferred and recognized over the associated service contract period or customer life.

Subscription Revenue
Subscription revenues from cable networks and premium pay and basic-tier television services are recognized over the license period as programming is provided to affiliates or digital distributors based on negotiated contractual programming rates. When a distribution contract with an affiliate has expired and a new distribution contract has not been executed, revenues are based on estimated rates, giving consideration to factors including the previous contractual rates, inflation, current payments by the affiliate and the status of the negotiations on a new contract. When the new distribution contract terms are finalized, an adjustment to revenue is recorded, if necessary, to reflect the new terms.

Subscription revenues from end-user subscribers are recognized when services are provided, based upon either usage or period of time. Subscription revenues from OTT services are recognized as programming services are provided to customers.

Content Revenue
Feature films typically are produced or acquired for initial exhibition in theaters, followed by distribution, generally commencing within three years of such initial exhibition. Revenues from film rentals by theaters are recognized as the films are exhibited.

Television programs and series are initially produced for broadcast and may be subsequently licensed or sold in physical format and/or electronic delivery. Revenues from the distribution of television programming through broadcast networks, cable networks, first-run syndication and OTT services are recognized when the programs or series are available to the licensee. In certain circumstances, pursuant to the terms of the applicable contractual arrangements, the availability dates granted to customers may precede the date in which the customer can be billed for these sales.

Revenues from sales of feature films and television programming in physical format are recognized at the later of the delivery date or the date when made widely available for sale or rental by retailers based on gross sales less a provision for estimated returns, rebates and pricing allowances. Revenues from the licensing of television programs and series for electronic sell-through or video-on-demand are recognized when the product has been purchased by and made available to the consumer to either download or stream.

Upfront or guaranteed payments for the licensing of intellectual property are recognized as revenue at either the inception of the license term if the intellectual property has significant standalone functionality or over the corresponding license term if the licensee’s ability to derive utility is dependent on our continued support of the intellectual property throughout the license term.

Revenues from the sales of console games are recognized at the later of the delivery date or the date that the product is made widely available for sale or rental by retailers based on gross sales less a provision for estimated returns, rebates and pricing allowances.

Dollars in millions except per share amounts

Advertising Revenue
Advertising revenues are recognized, net of agency commissions, in the period that the advertisements are aired. If there is a targeted audience guarantee, revenues are recognized for the actual audience delivery and revenues are deferred for any shortfall until the guaranteed audience delivery is met, typically by providing additional advertisements. Advertising revenues from digital properties are recognized as impressions are delivered or the services are performed.

Revenue Categories
The following table sets forth reported revenue by category:

For the year ended December 31, 2018

	Service Revenues								
	Wireless	Advanced Data	Legacy Voice & Data	Subscription	Content	Advertising	Other	Equipment	Total
Communications									
Mobility	$54,701	$ —	$ —	$ —	$ —	$ 232	$ —	$16,411	$ 71,344
Entertainment Group	—	7,956	3,041	31,762	—	1,595	2,097	9	46,460
Business Wireline	—	12,310	10,697	—	—	—	2,996	824	26,827
WarnerMedia									
Turner	—	—	—	4,207	295	2,330	147	—	6,979
Home Box Office	—	—	—	3,201	391	—	6	—	3,598
Warner Bros.	—	—	—	47	8,216	53	387	—	8,703
Eliminations and Other	—	—	—	74	(518)	78	27	—	(339)
Latin America									
Vrio	—	—	—	4,784	—	—	—	—	4,784
Mexico	1,701	—	—	—	—	—	—	1,167	2,868
Xandr	—	—	—	—	—	1,740	—	—	1,740
Corporate and Other	—	—	—	—	—	—	1,191	—	1,191
Eliminations and consolidations	—	—	—	—	(1,843)	(1,595)	39	—	(3,399)
Total Operating Revenues	$56,402	$20,266	$13,738	$44,075	$ 6,541	$ 4,433	$6,890	$18,411	$170,756

No customer accounted for more than 10% of consolidated revenues in 2018, 2017 or 2016.

Deferred Customer Contract Acquisition and Fulfillment Costs

Costs to acquire customer contracts, including commissions on service activations, for our wireless, business wireline and video entertainment services, are deferred and amortized over the contract period or expected customer relationship life, which typically ranges from two to five years. Costs to fulfill customer contracts are deferred and amortized over periods ranging generally from four to five years, reflecting the estimated economic lives of the respective customer relationships, subject to an assessment of the recoverability of such costs. For contracts with an estimated amortization period of less than one year, we expense incremental costs immediately.

Our deferred customer contract acquisition costs and deferred customer contract fulfillment costs balances were $3,974 and $11,540 as of December 31, 2018, respectively, of which $1,901 and $4,090 were included in "Other current assets" on our consolidated balance sheets. For the year ended December 31, 2018, we amortized $1,433 and $4,039 of these costs, respectively.

Contract Assets and Liabilities

A contract asset is recorded when revenue is recognized in advance of our right to bill and receive consideration (i.e., we must perform additional services or satisfy another performance obligation in order to bill and receive consideration). The contract asset will decrease as services are provided and billed. When consideration is received in advance of the delivery of goods or services, a contract liability is recorded. Reductions in the contract liability will be recorded as we satisfy the performance obligations.

The following table presents contract assets and liabilities and revenue recorded at or for the year ended December 31, 2018:

Contract asset	$1,896
Contract liability	6,856

Our beginning of period contract liability recorded as customer contract revenue during 2018 was $5,677.

Our consolidated balance sheet at December 31, 2018 included approximately $1,244 for the current portion of our contract asset in "Other current assets" and $5,752 for the current portion of our contract liability in "Advanced billings and customer deposits."

Remaining Performance Obligations

Remaining performance obligations represent services we are required to provide to customers under bundled or discounted arrangements, which are satisfied as services are provided over the contract term. In determining the transaction price allocated, we do not include nonrecurring charges and estimates for usage, nor do we consider arrangements with an original expected duration of less than one year, which are primarily prepaid wireless, video and residential internet agreements in our Communications segment and advertising and fixed-fee subscription arrangements in our WarnerMedia segment.

Remaining performance obligations are associated with 1) business contracts that reflect recurring charges billed, adjusted for our estimates of sales incentives and other revenue adjustments, 2) wireless contracts, which are estimated using a portfolio approach where we review all relevant promotional activities, calculating the remaining performance obligation using the average service component for the portfolio and the average device price, 3) the licensing of theatrical and television content that will be made available to customers at some point in the future, and 4) upfront or guaranteed payments for licenses of intellectual property that will be recognized over the corresponding license term.

As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was $39,871 of which we expect to recognize approximately 55% next year and 80% over the next two years, with the balance recognized thereafter.

Comparative Results

Prior to 2018, revenue recognized from contracts that bundle services and equipment was limited to the lesser of the amount allocated based on the relative selling price of the equipment and service already delivered or the consideration received from the customer for the equipment and service already delivered. Our prior accounting also separately recognized regulatory fees as operating revenue when received and as an expense when incurred. Sales commissions were previously expensed as incurred.

The following table presents our reported results under ASC 606 and our pro forma results using the historical accounting method:

At or for the year ended December 31, 2018	As Reported	Historical Accounting Method
Consolidated Statement of Income:		
Service Revenues	$152,345	$157,979
Equipment Revenues	18,411	16,324
Total Operating Revenues	170,756	174,303
Other cost of revenues	32,906	36,636
Selling, general and administrative expenses	36,765	38,961
Total Operating Expenses	144,660	150,586
Operating income	26,096	23,717
Income before income taxes	24,873	22,494
Income tax expense	4,920	4,337
Net income	19,953	18,157
Net income attributable to AT&T	$ 19,370	$ 17,597
Basic Earnings per Share Attributable to AT&T	$ 2.85	$ 2.59
Diluted Earnings per Share Attributable to AT&T	$ 2.85	$ 2.59
Consolidated Balance Sheet:		
Other current assets	$ 17,704	$ 14,756
Other Assets	24,809	22,144
Accounts payable and accrued liabilities	43,184	43,363
Advanced billings and customer deposits	5,948	6,012
Deferred income taxes	57,859	56,485
Other noncurrent liabilities	30,233	29,937
Retained earnings	58,753	54,616
Accumulated other comprehensive income	4,249	4,258
Noncontrolling interest	$ 9,795	$ 9,737

NOTE 6. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

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 offerings.

Dollars in millions except per share amounts

Under the merger agreement, each share of Time Warner stock was exchanged for $53.75 cash plus 1.437 shares of our common stock. After adjustment for shares issued to trusts consolidated by AT&T, share-based payment arrangements and fractional shares, which were settled in cash, AT&T issued 1,125,517,510 shares to Time Warner shareholders, giving them an approximate 16% stake in the combined company. Based on our $32.52 per share closing stock price on June 14, 2018, we paid Time Warner shareholders $36,599 in AT&T stock and $42,100 in cash. Total consideration, including share-based payment arrangements and other adjustments totaled $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.

Our 2018 operating results include the results from Time Warner following the acquisition date. The fair values of the assets acquired and liabilities assumed were preliminarily determined using the income, cost and market approaches. The fair value measurements were primarily based on significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in ASC 820, "Fair Value Measurement," other than cash and long-term debt acquired in the acquisition. The income approach was primarily used to value the intangible assets, consisting primarily of distribution network, released TV and film content, in-place advertising network, trade names, and franchises. The income approach estimates fair value for an asset based on the present value of cash flow projected to be generated by the asset. Projected cash flow is discounted at a required rate of return that reflects the relative risk of achieving the cash flow and the time value of money. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used, as appropriate, for plant, property and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation.

The following table summarizes the preliminary estimated fair values of the Time Warner assets acquired and liabilities assumed and related deferred income taxes as of the acquisition date:

Assets acquired	
Cash	$ 1,889
Accounts receivable	9,052
All other current assets	2,913
Noncurrent inventory and theatrical film and television production costs	5,593
Property, plant and equipment	4,769
Intangible assets subject to amortization	
Distribution network	18,040
Released television and film content	10,806
Trademarks and trade names	18,081
Other	10,300
Investments and other assets	9,449
Goodwill	38,566
Total assets acquired	**129,458**
Liabilities assumed	
Current liabilities, excluding current portion of long-term debt	8,303
Debt maturing within one year	4,471
Long-term debt	18,394
Other noncurrent liabilities	18,931
Total liabilities assumed	**50,099**
Net assets acquired	**79,359**
Noncontrolling interest	(1)
Aggregate value of consideration paid	**$ 79,358**

These estimates are preliminary in nature and subject to adjustments, which could be material. Any necessary adjustments will be finalized within one year from the date of acquisition. Substantially all the receivables acquired are expected to be collectible. We have not identified any material unrecorded pre-acquisition contingencies where the related asset or liability, or an impairment is probable and the amount can be reasonably estimated. Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the fair value of the net assets acquired, and represents the future economic benefits that we expect to achieve as a result of the acquisition. Prior to the finalization of the purchase price allocation, if information becomes available that would indicate it is probable that unknown events had occurred and the amounts can be reasonably estimated, such items will be included in the final purchase price allocation and may change goodwill. Purchased goodwill is not expected to be deductible for tax purposes. As we finalize the valuation of assets acquired and liabilities assumed, we will determine to which reporting units within the WarnerMedia segment any changes in goodwill should be recorded.

For the 200-day period ended December 31, 2018, our consolidated statement of income included $18,209 of revenues and $1,400 of operating income, which included $3,296 of intangible amortization, from Time Warner and its affiliates. The following unaudited pro forma consolidated results of operations assume that the acquisition of Time Warner was completed as of January 1, 2017.

	(Unaudited) Year Ended December 31,	
	2018	2017
Total operating revenues	**$183,651**	$188,769
Net Income Attributable to AT&T	**20,814**	31,380
Basic Earnings Per Share Attributable to AT&T	**$ 2.86**	$ 4.30
Diluted Earnings Per Share Attributable to AT&T	**$ 2.85**	$ 4.26

These unaudited pro forma consolidated results reflect the adoption of ASC 606 for 2018, which is not on a comparable basis with 2017 (see Note 5). Pro forma data may not be indicative of the results that would have been obtained had these events occurred at the beginning of the periods presented, nor is it intended to be a projection of future results.

Otter Media On August 7, 2018, we acquired the remaining interest in Otter Media Holdings (Otter Media) for $157 in cash and the conversion to equity of the $1,480 advance made in the first quarter. At acquisition, we remeasured the fair value of the total business, which exceeded the book value of our equity method investment and resulted in a pre-tax gain of $395. We consolidated that business upon close and recorded those assets at fair value, including $1,239 of goodwill that is reported in the WarnerMedia segment.

AppNexus On August 15, 2018, we purchased AppNexus for $1,432 and recorded $1,220 of goodwill that is reported in the Xandr segment. Our investment will allow us to create a marketplace for TV and digital video advertising.

Auction 1000 On April 13, 2017, the FCC announced that we were the successful bidder for $910 of spectrum in 18 markets. We provided the FCC an initial deposit of $2,348 in July 2016 and received a refund of $1,438 in April 2017, which was recorded as cash from investing activities in our consolidated statement of cash flows. In 2018, we sold these wireless licenses at the auction price.

Spectrum Acquisitions and Swaps On occasion, we swap spectrum with other wireless providers to ensure we have efficient and contiguous coverage across our markets and service areas. During 2018, we acquired $521 of wireless spectrum. During 2017, we swapped FCC licenses with a fair value of approximately $2,003 with other carriers and recorded a net gain of $181. During 2016, we swapped FCC licenses with a fair value of approximately $2,122 with other carriers and recorded a net gain of $714.

Dispositions

Data Colocation Operations On December 31, 2018, we sold certain data centers to Brookfield Infrastructure Partners for $1,100 and recorded a pre-tax gain of $432. The sale included assets; primarily consisting of property, plant and equipment, of $298; and goodwill of $215.

YP Holdings LLC In June 2017, YP Holdings LLC was acquired by Dex Media, resulting in a gain of $36 for our portion of the proceeds.

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

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

	Lives (years)	**2018**	2017
Land	—	**$ 2,714**	$ 1,630
Buildings and improvements	2-44	**38,013**	36,319
Central office equipment[1]	3-10	**95,173**	94,076
Cable, wiring and conduit	15-50	**73,397**	67,695
Satellites	14-17	**2,961**	2,967
Other equipment	3-20	**93,782**	90,017
Software	3-7	**19,124**	16,750
Under construction	—	**5,526**	4,045
		330,690	313,499
Accumulated depreciation and amortization		**199,217**	188,277
Property, plant and equipment – net		**$131,473**	$125,222

[1] Includes certain network software.

Our depreciation expense was $20,102 in 2018, $19,761 in 2017 and $20,661 in 2016. Depreciation expense included amortization of software totaling $3,092 in 2018, $2,810 in 2017 and $2,362 in 2016.

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

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were $5,296 for 2018, $4,953 for 2017 and $4,482 for 2016. At December 31, 2018, the future minimum rental payments under noncancelable operating leases for the years 2019 through 2023 were $4,361, $4,046, $3,558, $3,253 and $2,836, with $9,540 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. At December 31, 2018, the future minimum rental payments under capital leases for the years 2019 through 2023 were $154, $130, $118, $124 and $124, with $1,261 due thereafter.

Dollars in millions except per share amounts

NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table sets forth the changes in the carrying amounts of goodwill by reporting unit, which is deemed to be our principal operating segments or one level below. Our Communications segment has three reporting units: Mobility, Entertainment Group and Business Wireline. Due to the timing of the Time Warner acquisition, we have not finalized the valuation or allocation of goodwill to the underlying business units and have recorded the goodwill in our WarnerMedia segment. Our Latin America segment has two reporting units: Mexico and Vrio.

	2018					2017			
	Balance at Jan. 1	Reallocation	Acquisitions	Dispositions, currency exchange and other	Balance at Dec. 31	Balance at Jan. 1	Acquisitions	Dispositions, currency exchange and other	Balance at Dec. 31
Mobility	**$ —**	**$ 44,108**	**$ —**	**$ —**	**$ 44,108**	$ —	$ —	$ —	$ —
Entertainment Group	**39,280**	**(860)**	**—**	**(11)**	**38,409**	39,053	210	17	39,280
Business Wireline	**—**	**17,827**	**422**	**(215)**	**18,034**	—	—	—	—
Communications	**39,280**	**61,075**	**422**	**(226)**	**100,551**	39,053	210	17	39,280
WarnerMedia	**—**	**681**	**40,036**	**(19)**	**40,698**	—	—	—	—
Latin America	**4,234**	**(32)**	**—**	**(484)**	**3,718**	4,264	—	(30)	4,234
Xandr	**—**	**211**	**1,220**	**(28)**	**1,403**	—	—	—	—
Business Solutions	**45,395**	**(45,395)**	**—**	**—**	**—**	45,364	—	31	45,395
Consumer Mobility	**16,540**	**(16,540)**	**—**	**—**	**—**	16,526	—	14	16,540
Total	**$105,449**	**$ —**	**$41,678**	**$(757)**	**$146,370**	$105,207	$210	$32	$105,449

The majority of our goodwill acquired in 2018 is from our acquisitions of Time Warner, AppNexus and Otter Media (see Note 6). Other changes to our goodwill in 2018 include the sale of our data colocation operations, as well as changes from foreign currency translation. With our segment realignment, we reallocated goodwill within our reporting units.

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

Our other intangible assets at December 31 are summarized as follows:

	2018				2017		
Other Intangible Assets	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Currency Translation Adjustment	Gross Carrying Amount	Accumulated Amortization	Currency Translation Adjustment
Amortized intangible assets:							
Customer lists and relationships:							
Wireless acquisitions		**$ 244**	**$ 212**	**$ —**	$ 764	$ 683	$ —
BellSouth Corporation		**—**	**—**	**—**	2,370	2,370	—
WarnerMedia		**73**	**15**	**—**	—	—	—
AppNexus		**75**	**20**	**—**	—	—	—
DIRECTV		**19,551**	**11,852**	**(216)**	19,551	8,950	(141)
AT&T Corp.		**67**	**36**	**—**	33	29	—
Mexican wireless		**506**	**316**	**(98)**	506	278	(97)
Subtotal	9.1 years	**20,516**	**12,451**	**(314)**	23,224	12,310	(238)
Trademarks and trade names	38.6 years	**18,371**	**293**	**(7)**	2,942	2,366	(6)
Distribution network	10.0 years	**18,040**	**971**	**—**	—	—	—
Released television and film content	10.8 years	**10,814**	**2,988**	**—**	—	—	—
Other	18.8 years	**11,624**	**907**	**(25)**	781	335	(3)
Total	17.8 years	**$ 79,365**	**$17,610**	**$(346)**	$ 26,947	$15,011	$(247)

	2018	2017
Indefinite-lived intangible assets not subject to amortization, net of currency translation adjustment:		
Licenses:		
Wireless licenses	**$ 84,442**	$ 84,434
Orbital slots	**11,702**	11,702
Trade names	**6,274**	6,451
Total	**$102,418**	$102,587

Amortized intangible assets are definite-life assets, and, as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets. Amortization expense for definite-life intangible assets was $8,327 for the year ended December 31, 2018, $4,626 for the year ended December 31, 2017 and $5,186 for the year ended December 31, 2016. Amortization expense is estimated to be $7,982 in 2019, $6,886 in 2020, $5,787 in 2021, $5,015 in 2022 and $4,337 in 2023.

In 2018, we wrote off approximately $2,892 of fully amortized trade names and $2,890 of fully amortized customer lists. In 2017, we wrote off approximately $2,273 of fully amortized intangible assets (primarily customer lists). We review amortized intangible assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

NOTE 9. EQUITY METHOD INVESTMENTS

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

In the second quarter of 2018, we acquired Time Warner (see Note 6), which included various equity method investments. The differences between the fair value and the proportional book value of these investments' net assets were $2,871. We attributed $1,642 to amortizing intangibles, which will be amortized into earnings in our "Equity net income (loss) of affiliates" over a weighted-average life of 18.2 years. The earnings from these investments, subsequent to the acquisition date, are included in the 2018 activity in the table below, as well as our consolidated statement of income for 2018.

In the third quarter of 2018, we acquired the remaining interest in Otter Media, which had previously been one of our equity method investments (see Note 6). Upon the closing of this acquisition, we began consolidating that business and recorded those assets at fair value.

Our investments in equity affiliates at December 31, 2018 primarily include our interests in Hudson Yards, HBO Latin America Group, Hulu, Central European Media Enterprises Ltd. and SKY Mexico.

Hudson Yards North Tower Holdings LLC (Hudson Yards)

We hold a 50.0% interest in Hudson Yards, a limited liability company involved in the construction and development of real estate in New York City, which includes future office and studio space to be used by our WarnerMedia business.

HBO Latin America Group (HBO LAG) We hold an 88.2% interest in HBO LAG, which owns and operates various television channels in Latin America. We do not have the power to direct the activities that most significantly impact this entity's economic performance, and therefore, account for this investment under the equity method of accounting.

Hulu We hold a 10.0% interest in Hulu, a provider of over-the-top services including instant streaming of television and movies.

Central European Media Enterprises Ltd. (CME) We hold a 66.6% interest in CME, a broadcasting company that operates leading television networks in Bulgaria, the Czech Republic, Romania and the Slovak Republic, as well as develops and produces content for its television networks. We do not have the power to direct the activities that most significantly impact this entity's economic performance, and therefore, account for this investment under the equity method of accounting.

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

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

	2018	2017
Beginning of year	**$1,560**	$1,674
Additional investments	**237**	51
Time Warner investments acquired	**4,912**	—
Acquisition of remaining interest in Otter Media	**(166)**	—
Equity in net income (loss) of affiliates	**(48)**	(128)
Dividends and distributions received	**(243)**	(46)
Currency translation adjustments	**(14)**	22
Other adjustments	**7**	(13)
End of year	**$6,245**	$1,560

Dollars in millions except per share amounts

NOTE 10. INVENTORIES AND THEATRICAL FILM AND TELEVISION PRODUCTION COSTS

Film and television production costs are stated at the lower of cost, less accumulated amortization, or fair value and include the unamortized cost of completed theatrical films and television episodes, theatrical films and television series in production and undeveloped film and television rights. The amount of capitalized film and television production costs recognized as broadcast, programming and operations expenses for a given period is determined using the film forecast computation method.

The following table summarizes inventories and theatrical film and television production costs as of December 31:

	2018
Inventories:	
Programming costs, less amortization[1]	**$ 4,097**
Other inventory, primarily DVD and Blu-ray Discs	**146**
Total inventories	**4,243**
Less: current portion of inventory	**(2,420)**
Total noncurrent inventories	**1,823**
Theatrical film production costs:[2]	
Released, less amortization	**451**
Completed and not released	**435**
In production	**866**
Development and pre-production	**159**
Television production costs:[2]	
Released, less amortization	**965**
Completed and not released	**1,087**
In production	**1,898**
Development and pre-production	**29**
Total theatrical film and television production costs	**5,890**
Total noncurrent inventories and theatrical film and television production costs	**$ 7,713**

[1] Includes the costs of certain programming rights, primarily sports, for which payments have been made prior to the related rights being received.
[2] Does not include $7,826 of acquired film and television library intangible assets as of December 31, 2018, which are included in "Other Intangible Assets – Net" on our consolidated balance sheet.

Approximately 90% of unamortized film costs for released theatrical and television content are expected to be amortized within three years from December 31, 2018. In addition, approximately $2,298 of the film costs of released and completed and not released theatrical and television product are expected to be amortized during 2019.

NOTE 11. DEBT

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

		2018	2017
Notes and debentures			
Interest Rates	Maturities[1]		
0.49% – 2.99%	2018 – 2022	**$ 14,404**	$ 19,514
3.00% – 4.99%	2018 – 2049	**104,291**	93,915
5.00% – 6.99%	2018 – 2095	**37,175**	46,343
7.00% – 9.50%	2018 – 2097	**5,976**	4,579
Credit agreement borrowings		**12,618**	1,700
Other		**89**	—
Fair value of interest rate swaps recorded in debt		**(32)**	(20)
		174,521	166,031
Unamortized (discount) premium – net		**(2,526)**	(2,968)
Unamortized issuance costs		**(466)**	(537)
Total notes and debentures		**171,529**	162,526
Capital lease obligations		**1,911**	1,818
Total long-term debt, including current maturities		**173,440**	164,344
Current maturities of long-term debt		**(7,190)**	(38,372)
Total long-term debt		**$166,250**	$125,972

[1] Maturities assume putable debt is redeemed by the holders at the next opportunity.

On June 14, 2018, we added $22,865 in total debt, including capital leases, related to our acquisition of Time Warner. Time Warner's debt included both fixed and floating-rate coupons with a weighted average rate of approximately 4.63% (ranging from 1.25% to 9.15%) and had maturities ranging from 2018 to 2045. Included in our "Total note and debentures" balance in the table above was the face value of the acquired debt from Time Warner of $16,981, which had a carrying amount of $17,107 at December 31, 2018.

Included in the table above at December 31, 2018, was approximately $546, representing the remaining excess of the fair value over the recorded value of debt in connection with the acquisition of Time Warner, all of which was included in our "Unamortized (discount) premium – net." The excess is amortized over the remaining lives of the underlying debt obligations.

We had outstanding Euro, British pound sterling, Canadian dollar, Swiss franc, Australian dollar, Brazilian real and Mexican peso denominated debt of approximately $41,356 and $37,621 at December 31, 2018 and 2017.

The weighted-average interest rate of our entire long-term debt portfolio, including the impact of derivatives, remained unchanged at 4.4% at December 31, 2018 and 2017.

Current maturities of long-term debt include debt that may be put back to us by the holders in 2019. We have $1,000 of annual put reset securities that may be put each April until maturity in 2021. If the holders do not require us to repurchase the securities, the interest rate will be reset based on current market conditions. Likewise, we have an accreting zero-coupon note that may be redeemed each May, until maturity in 2022. If the zero-coupon note (issued for principal of $500 in 2007 and partially exchanged in the 2017 debt exchange offers) is held to maturity, the redemption amount will be $592.

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

	2018	2017
Current maturities of long-term debt	**$ 7,190**	$38,372
Commercial paper	**3,048**	—
Bank borrowings[1]	**4**	2
Other	**13**	—
Total	**$10,255**	$38,374

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

Financing Activities

During 2018, we received net proceeds of $41,875 on the issuance of $41,977 in long-term debt in various markets, with an average weighted maturity of approximately five years and a weighted average coupon of 3.4%. We redeemed $52,643 in borrowings of various notes with stated rates of 1.25% to 6.45%. Approximately $21,236 of the notes redeemed were subject to mandatory redemption due to the delay in closing our acquisition of Time Warner.

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.

As of December 31, 2018 and 2017, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Maturities of outstanding long-term notes and debentures, as of December 31, 2018, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2019	2020	2021	2022	2023	There-after
Debt repayments[1]	$7,090	$12,665	$13,468	$12,640	$14,081	$114,609
Weighted-average interest rate	3.0%	3.3%	3.7%	3.0%	3.5%	4.8%

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

Credit Facilities

General

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 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 (described below).

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. During 2018, to provide financing for our Time Warner acquisition, we drew $2,250 on the Nova Scotia Credit Agreement.

On November 15, 2016, we entered into a $10,000 term loan credit agreement (the "Acquisition Term Loan") with a syndicate of 20 lenders. On February 2, 2018, we amended the Acquisition Term Loan to extend the commitment termination date to December 31, 2018 and increase the commitments to $16,175. During 2018, to provide financing for our Time Warner acquisition, we drew $16,175 on the Acquisition Term Loan and as of December 31, 2018 have $2,625 outstanding.

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.

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

Credit Agreements

The obligations of the lenders under the Amended and Restated Credit Agreement to provide advances will terminate on December 11, 2021, and under the Five Year Credit Agreement to provide advances will terminate on December 11, 2023, unless the commitments are terminated in whole prior to that date. All advances must be repaid no later than the date on which lenders are no longer obligated to make any advances under the applicable Credit Agreement.

Each of the Credit Agreements provides that we and lenders representing more than 50% of the facility amount may agree to extend their commitments under such Credit Agreement for two one-year periods beyond the initial termination date. We have the right to terminate, in whole or in part, amounts committed by the lenders under each of the Credit Agreements in excess of any outstanding advances; however, any such terminated commitments may not be reinstated.

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

- at a variable annual rate equal to: (1) the highest of (but not less than zero) (a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate, (b) 0.5% per annum above the federal funds rate, and (c) the London interbank offered rate (or the successor thereto) ("LIBOR") applicable to dollars for a period of one month plus 1.00%, plus (2) an applicable margin, as set forth in the applicable Credit Agreement (the "Applicable Margin for Base Advances"); or
- at a rate equal to: (i) LIBOR (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) an applicable margin, as set forth in the applicable Credit Agreement (the "Applicable Margin for Eurodollar Rate Advances").

We will pay a facility fee of 0.070%, 0.080%, 0.100% or 0.125% per annum of the amount of the lender commitments, depending on AT&T's credit rating.

November 2018 Term Loan

On November 20, 2018, we drew on the November 2018 Term Loan to finance the repayment in part of loans outstanding under the Acquisition Term Loan. Advances would bear interest, at AT&T's option, either:

- at a variable annual rate equal to: (1) the highest of (but not less than zero) (a) the prime rate quoted by The Wall Street Journal, (b) 0.5% per annum above the federal funds rate, and (c) the London interbank offered rate ("LIBOR") applicable to dollars for a period of one month plus 1.00%, plus (2) an applicable margin, as set forth in the November 2018 Term Loan (the "Applicable Margin for Base Advances"); or
- at a rate equal to: (i) LIBOR (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) an applicable margin, as set forth in the November 2018 Term Loan (the "Applicable Margin for Eurodollar Rate Advances").

The Applicable Margin for Eurodollar Rate Advances will be equal to 0.875%, 1.000% or 1.125% per annum, depending on AT&T's unsecured long-term debt ratings. The Applicable Margin for Base Advances is equal to the greater of (x) 0.00% and (y) the relevant Applicable Margin for Eurodollar Rate Advances minus 1.00% per annum, depending on AT&T's unsecured long-term debt ratings.

Repayment of all advances with respect to the November 2018 Term Loan will be subject to amortization commencing two years and nine months after the date on which such advances are made, with 25% of the aggregate principal amount thereof being payable prior to the date that is four years and six months after the date on which such advances are made, and all remaining principal amount due and payable on the date that is four years and six months after the date on which such advances are made.

Nova Scotia Credit Agreement

On January 26, 2018, to provide financing for our Time Warner acquisition, we drew $2,250 on the Nova Scotia Credit Agreement. Advances under this agreement would bear interest, at AT&T's option, either:

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

Acquisition Term Loan

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

On June 14, 2018, to provide financing for our Time Warner acquisition, we drew $16,175 on the Acquisition Term Loan.

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

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

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

As of December 31, 2018, $2,625 is outstanding of Tranche A advances and $0 is outstanding of Tranche B advances. Repayment of all advances with respect to Tranche A must be made no later than two years and six months after the date on which such advances are made. We paid $2,625 of the Tranche A advances on February 20, 2019, and terminated the facility.

Citibank 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.

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

- at a variable annual rate equal to: (1) the highest of (but not less than zero) (a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate, (b) 0.5% per annum above the federal funds rate, and (c) the London interbank offered rate ("LIBOR") applicable to dollars for a period of one month plus 1.00%, plus (2) an applicable margin, as set forth in the Citibank Term Loan (the "Applicable Margin for Base Advances (Citibank Term Loan)"); or
- at a rate equal to: (i) LIBOR (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) an applicable margin, as set forth in the Citibank Term Loan (the "Applicable Margin for Eurodollar Rate Advances (Citibank Term Loan)").

The Applicable Margin for Eurodollar Rate Advances (Citibank Term Loan) will be equal to 0.750%, 0.800% or 1.000% per annum, depending on AT&T's unsecured long-term debt ratings. The Applicable Margin for Base Advances (Citibank Term Loan) is equal to the greater of (x) 0.00% and (y) the relevant Applicable Margin for Eurodollar Rate Advances (Citibank Term Loan) minus 1.00% per annum, depending on AT&T's unsecured long-term debt ratings.

Repayment of all advances with respect to the Citibank Term Loan must be made no later than December 31, 2019.

NOTE 12. FAIR VALUE MEASUREMENTS AND DISCLOSURE

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

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we have the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

- Fair value is often based on developed models in which there are few, if any, external observations.

Dollars in millions except per share amounts

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

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable value or reflective of future fair values. We believe our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used since December 31, 2017.

Long-Term Debt and Other Financial Instruments

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

	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures[1]	**$171,529**	**$172,287**	$162,526	$171,938
Commercial paper	**3,048**	**3,048**	—	—
Bank borrowings	**4**	**4**	2	2
Capitalized leases	**1,911**	**1,911**	1,818	1,818
Investment securities	**3,409**	**3,409**	2,447	2,447

[1] Includes credit agreement borrowings.

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

Following is the fair value leveling for investment securities that are measured at fair value and derivatives as of December 31, 2018, and December 31, 2017. Derivatives designated as hedging instruments are reflected as “Other assets” and “Other noncurrent liabilities” on our consolidated balance sheets.

	December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity Securities				
Domestic equities	**$1,061**	**$ —**	**$ —**	**$ 1,061**
International equities	**256**	**—**	**—**	**256**
Fixed income equities	**172**	**—**	**—**	**172**
Available-for-Sale Debt Securities	**—**	**870**	**—**	**870**
Asset Derivatives				
Cross-currency swaps	**—**	**472**	**—**	**472**
Foreign exchange contracts	**—**	**87**	**—**	**87**
Liability Derivatives				
Interest rate swaps	**—**	**(39)**	**—**	**(39)**
Cross-currency swaps	**—**	**(2,563)**	**—**	**(2,563)**
Foreign exchange contracts	**—**	**(2)**	**—**	**(2)**

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Equity Securities				
Domestic equities	$ 1,142	$ —	$ —	$ 1,142
International equities	321	—	—	321
Fixed income equities	—	152	—	152
Available-for-Sale Debt Securities	—	581	—	581
Asset Derivatives				
Interest rate swaps	—	17	—	17
Cross-currency swaps	—	1,753	—	1,753
Liability Derivatives				
Interest rate swaps	—	(31)	—	(31)
Cross-currency swaps	—	(1,290)	—	(1,290)

Investment Securities

Our investment securities include both equity and debt securities that are measured at fair value, as well as equity securities without readily determinable fair values. A substantial portion of the fair values of our investment securities is estimated based on quoted market prices. Investments in equity securities not traded on a national securities exchange are valued at cost, less any impairment, and adjusted for changes resulting from observable, orderly transactions for identical or similar securities. Investments in debt securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

The components comprising total gains and losses on equity securities are as follows:

For the year ended December 31,	**2018**	2017	2016
Total gains (losses) recognized on equity securities	**$(130)**	$326	$96
Gains (losses) recognized on equity securities sold	**50**	303	4
Unrealized gains (losses) recognized on equity securities held at end of period	**$(180)**	$ 23	$92

At December 31, 2018, available-for-sale debt securities totaling $870 have maturities as follows - less than one year: $8; one to three years: $135; three to five years: $123; for five or more years: $604.

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

Derivative Financial Instruments

We enter into derivative transactions to manage certain market risks, primarily interest rate risk and foreign currency exchange risk. This includes the use of interest rate swaps, interest rate locks, foreign exchange forward contracts and combined interest rate foreign exchange contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We record derivatives on our consolidated balance sheets at fair value that is derived from observable market data, including yield curves and foreign exchange rates (all of our derivatives are Level 2). Cash flows associated with derivative instruments are presented in the same category on the consolidated statements of cash flows as the item being hedged.

Fair Value Hedging

We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed-rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount.

We also designate some of our foreign exchange contracts as fair value hedges. The purpose of these contracts is to hedge currency risk associated with foreign-currency-denominated operating assets and liabilities.

Accrued and realized gains or losses from fair value hedges impact the same category on the consolidated statements of income as the item being hedged. Unrealized gains on fair value hedges are recorded at fair market value as assets, and unrealized losses are recorded at fair market value as liabilities. Changes in the fair value of derivative instruments designated as fair value hedges are offset against the change in fair value of the hedged assets or liabilities through earnings. In the year ended December 31, 2018 and 2017, no ineffectiveness was measured on fair value hedges.

Cash Flow Hedging

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

We also designate some of our foreign exchange contracts as cash flow hedges. The purpose of these contracts is to hedge currency risk associated with variability in anticipated foreign-currency-denominated cash flows, such as unremitted or forecasted royalty and license fees owed to WarnerMedia’s domestic companies for the sale or anticipated sale of U.S. copyrighted products abroad or cash flows for certain film production costs denominated in a foreign currency.

Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses are recorded at fair value as liabilities. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into the consolidated statements of income in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as "Other income (expense) – net" in the consolidated statements of income in each period. We evaluate the effectiveness of our cash flow hedges each quarter. In the year ended December 31, 2018 and 2017, no ineffectiveness was measured on cash flow hedges.

Dollars in millions except per share amounts

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. Over the next 12 months, we expect to reclassify $63 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks.

Net Investment Hedging
We have designated €700 million aggregate principal amount of debt as a hedge of the variability of some of the 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 on the consolidated balance sheet.

Collateral and Credit-Risk Contingency
We have entered into agreements with our derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. At December 31, 2018, we had posted collateral of $1,675 (a deposit asset) and held collateral of $103 (a receipt liability). Under the agreements, if AT&T's credit rating had been downgraded one rating level by Fitch Ratings, before the final collateral exchange in December, we would have been required to post additional collateral of $154. If DIRECTV Holdings LLC's credit rating had been downgraded below BBB- (S&P), we would have been required to post additional collateral of $256. At December 31, 2017, we had posted collateral of $495 (a deposit asset) and held collateral of $968 (a receipt liability). We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) exists, against the fair value of the derivative instruments.

Following are the notional amounts of our outstanding derivative positions:

	2018	2017
Interest rate swaps	**$ 3,483**	$ 9,833
Cross-currency swaps	**42,192**	38,694
Foreign exchange contracts	**2,094**	—
Total	**$47,769**	$48,527

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

Effect of Derivatives on the Consolidated Statements of Income

Fair Value Hedging Relationships For the years ended December 31,	**2018**	2017	2016
Interest rate swaps (Interest expense):			
Gain (Loss) on interest rate swaps	**$(12)**	$(68)	$(61)
Gain (Loss) on long-term debt	**12**	68	61

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

Cash Flow Hedging Relationships For the years ended December 31,	**2018**	2017	2016
Cross-currency swaps:			
Gain (Loss) recognized in accumulated OCI	**$(825)**	$571	$1,061
Foreign exchange contracts:			
Gain (Loss) recognized in accumulated OCI	**51**	—	—
Other income (expense) – net reclassified from accumulated OCI into income	**39**	—	—
Interest rate locks:			
Interest income (expense) reclassified from accumulated OCI into income	**(58)**	(60)	(59)

NOTE 13. INCOME TAXES

The Tax Cuts and Jobs Acts (the Act) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate income tax rate from 35% to 21% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. ASC 740, "Income Taxes," requires effects of changes in tax rates to be recognized in the period enacted. Recognizing the late enactment of the Act and complexity of accurately accounting for its impact, the Securities and Exchange Commission in SAB 118 provided guidance that allowed registrants to provide a reasonable estimate of the Act in their financial statements at December 31, 2017 and adjust the reported impact in a measurement period not to exceed one year.

In 2018, we completed our accounting for the tax effects of the enactment of the Act and the measurement of our deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future; the total benefit was $22,211, of which $20,271 was recorded in 2017 as a provisional amount. The total net benefit for the year ended December 31, 2018 was $718 for all enactment date and measurement period adjustments from the Act. The impact of the enactment of the Act is reflected in the tables below.

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

	2018	2017
Depreciation and amortization	**$43,105**	$30,982
Licenses and nonamortizable intangibles	**17,561**	16,129
Employee benefits	**(5,366)**	(6,202)
Deferred fulfillment costs	**2,679**	2,472
Net operating loss and other carryforwards	**(6,470)**	(6,067)
Other – net	**1,651**	1,222
Subtotal	**53,160**	38,536
Deferred tax assets valuation allowance	**4,588**	4,640
Net deferred tax liabilities	**$57,748**	$43,176
Noncurrent deferred tax liabilities	**$57,859**	$43,207
Less: Noncurrent deferred tax assets	**(111)**	(31)
Net deferred tax liabilities	**$57,748**	$43,176

At December 31, 2018, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of $179, state of $950 and foreign of $3,022, expiring through 2038. Additionally, we had federal credit carryforwards of $340 and state credit carryforwards of $1,979, expiring primarily through 2038.

We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. Our valuation allowances at December 31, 2018 and 2017 related primarily to state and foreign net operating losses and state credit carryforwards.

The Company considers post-1986 unremitted foreign earnings subjected to the one-time transition tax not to be indefinitely reinvested as such earnings can be repatriated without any significant incremental tax costs. U.S. income and foreign withholding taxes have not been recorded on temporary differences related to investments in certain foreign subsidiaries as such differences are considered indefinitely reinvested. Determination of the amount of unrecognized deferred tax liability is not practicable.

We recognize the financial statement effects of a tax return position when it is more likely than not, based on the technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, we apply our judgment, taking into account applicable tax laws, our experience in managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in our financial statements. For each position, the difference between the benefit realized on our tax return and the benefit reflected in our financial statements is recorded on our consolidated balance sheets as an unrecognized tax benefit (UTB). We update our UTBs at each financial statement date to reflect the impacts of audit settlements and other resolutions of audit issues, the expiration of statutes of limitation, developments in tax law and ongoing discussions with taxing authorities. A reconciliation of the change in our UTB balance from January 1 to December 31 for 2018 and 2017 is as follows:

Federal, State and Foreign Tax	2018	2017
Balance at beginning of year	**$ 7,648**	$ 6,516
Increases for tax positions related to the current year	**336**	1,438
Increases for tax positions related to prior years	**2,615**	200
Decreases for tax positions related to prior years	**(394)**	(461)
Lapse of statute of limitations	**(52)**	(28)
Settlements	**(664)**	(23)
Current year acquisitions	**872**	—
Foreign currency effects	**(3)**	6
Balance at end of year	**10,358**	7,648
Accrued interest and penalties	**2,588**	1,333
Gross unrecognized income tax benefits	**12,946**	8,981
Less: Deferred federal and state income tax benefits	**(811)**	(388)
Less: Tax attributable to timing items included above	**(3,430)**	(2,368)
Less: UTBs included above that relate to acquired entities that would impact goodwill if recognized	**(918)**	—
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	**$ 7,787**	$ 6,225

Periodically we make deposits to taxing jurisdictions which reduce our UTB balance but are not included in the reconciliation above. The amount of deposits that reduced our UTB balance was $2,115 at December 31, 2018 and $3,058 at December 31, 2017.

Dollars in millions except per share amounts

Accrued interest and penalties included in UTBs were $2,588 as of December 31, 2018, and $1,333 as of December 31, 2017. We record interest and penalties related to federal, state and foreign UTBs in income tax expense. The net interest and penalty expense included in income tax expense was $1,290 for 2018, $107 for 2017 and $24 for 2016.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. As a large taxpayer, our income tax returns are regularly audited by the Internal Revenue Service (IRS) and other taxing authorities. The IRS has completed field examinations of our tax returns through 2010. All audit periods prior to 2003 are closed for federal examination purposes. Contested issues from our 2003 through 2010 returns are at various stages of resolution with the IRS Appeals Division. While we do not expect material changes, we are generally unable to estimate the range of impacts on the balance of uncertain tax positions or the impact on the effective tax rate from the resolution of these issues until the close of the examination process; and it is possible that the amount of unrecognized benefit with respect to our uncertain tax positions could increase or decrease within the next 12 months.

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

	2018	2017	2016
Federal:			
Current	**$3,258**	$ 682	$2,915
Deferred	**277**	(17,970)	3,127
	3,535	(17,288)	6,042
State and local:			
Current	**513**	79	282
Deferred	**473**	1,041	339
	986	1,120	621
Foreign:			
Current	**539**	471	335
Deferred	**(140)**	989	(519)
	399	1,460	(184)
Total	**$4,920**	$(14,708)	$6,479

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

	2018	2017	2016
U.S. income before income taxes	**$25,379**	$16,438	$20,911
Foreign income (loss) before income taxes	**(506)**	(1,299)	(1,099)
Total	**$24,873**	$15,139	$19,812

A reconciliation of income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate (21% for 2018 and 35% for 2017 and 2016) to income from continuing operations before income taxes is as follows:

	2018	2017	2016
Taxes computed at federal statutory rate	**$ 5,223**	$ 5,299	$6,934
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	**738**	509	416
Enactment date and measurement period adjustments from the Act	**(718)**	(20,271)	—
Tax on foreign investments	**(466)**	73	168
Mexico restructuring	**—**	—	(471)
Other – net	**143**	(318)	(568)
Total	**$ 4,920**	$(14,708)	$6,479
Effective Tax Rate	**19.8%**	(97.2)%	32.7%

NOTE 14. PENSION AND POSTRETIREMENT BENEFITS

We offer noncontributory pension programs covering the majority of domestic nonmanagement employees in our Communications business. Nonmanagement employees' pension benefits are generally calculated using one of two formulas: a flat dollar amount applied to years of service according to job classification or a cash balance plan with negotiated annual pension band credits as well as interest credits. Most employees can elect to receive their pension benefits in either a lump sum payment or an annuity.

Pension programs covering U.S. management employees are closed to new entrants. These programs continue to provide benefits to participants that were generally hired before January 1, 2015, who receive benefits under either cash balance pension programs that include annual or monthly credits based on salary as well as interest credits, or a traditional pension formula (i.e., a stated percentage of employees' adjusted career income).

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

We acquired Time Warner on June 14, 2018. WarnerMedia and certain of its subsidiaries have both funded and unfunded defined benefit pension plans, the substantial majority of which are noncontributory plans covering domestic employees. WarnerMedia also sponsors unfunded domestic postretirement benefit plans covering certain retirees and their dependents. The plans were closed to new entrants and frozen for new accruals. We have recorded the fair value of the WarnerMedia plans using assumptions and accounting policies consistent with those disclosed by AT&T. Upon acquisition, the excess of projected benefit obligation over the plan assets was recognized as a liability and previously existing deferred actuarial gains and losses and unrecognized service costs or benefits were eliminated.

During 2018, we communicated and reflected in results the following plan changes to participants: (1) substantive plan changes involving the frequency of future health reimbursement account credit increases, and (2) a May 2018 written plan change involving the ability of certain participants of the pension plan to receive their benefit in a lump-sum amount upon retirement.

Obligations and Funded Status

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

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

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

	Pension Benefits		Postretirement Benefits	
	2018	2017	**2018**	2017
Benefit obligation at beginning of year	**$59,294**	$56,183	**$24,059**	$26,027
Service cost – benefits earned during the period	**1,116**	1,128	**109**	138
Interest cost on projected benefit obligation	**2,092**	1,936	**778**	809
Amendments	**50**	48	**(1,145)**	(1,807)
Actuarial (gain) loss	**(5,046)**	3,696	**(2,815)**	630
Special termination benefits	**1**	3	**1**	1
Benefits paid	**(4,632)**	(3,705)	**(1,680)**	(1,739)
Acquisitions	**2,559**	—	**71**	—
Plan transfers	**5**	5	**—**	—
Benefit obligation at end of year	**$55,439**	$59,294	**$19,378**	$24,059

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

	Pension Benefits		Postretirement Benefits	
	2018	2017	**2018**	2017
Fair value of plan assets at beginning of year	**$45,463**	$ 42,610	**$ 5,973**	$ 5,921
Actual return on plan assets	**(1,044)**	5,987	**(218)**	607
Benefits paid[1]	**(4,632)**	(3,705)	**(1,503)**	(1,055)
Contributions	**9,307**	566	**25**	500
Acquisitions	**2,582**	—	**—**	—
Plan transfers	**5**	5	**—**	—
Fair value of plan assets at end of year	**51,681**	45,463	**4,277**	5,973
Unfunded status at end of year[2]	**$ (3,758)**	$(13,831)	**$(15,101)**	$(18,086)

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

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

Dollars in millions except per share amounts

In 2013, we made a voluntary contribution of preferred equity interest in AT&T Mobility II LLC (Mobility II), the primary holding company for our wireless business, to the trust used to pay pension benefits under certain of our qualified pension plans. In 2018, we simplified transferability and enhanced marketability of the preferred equity interest, which resulted in it being recognized as a plan asset in our consolidated financial statements and reflected a noncash contribution of $8,803 included as "Contributions" in the above table. Since 2013, the preferred equity interest was a plan asset under ERISA and has been recognized as such in the plan's separate financial statements. (See Note 16)

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

	Pension Benefits		Postretirement Benefits	
	2018	2017	**2018**	2017
Current portion of employee benefit obligation[1]	**$ —**	$ —	**$ (1,464)**	$ (1,585)
Employee benefit obligation[2]	**(3,758)**	(13,831)	**(13,637)**	(16,501)
Net amount recognized	**$(3,758)**	$(13,831)	**$(15,101)**	$(18,086)

[1] Included in "Accounts payable and accrued liabilities."
[2] Included in "Postemployment benefit obligation."

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was $53,963 at December 31, 2018, and $57,488 at December 31, 2017.

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

Periodic Benefit Costs

Our combined net pension and postretirement cost (credit) recognized in our consolidated statements of income was $(4,251), $155 and $303 for the years ended December 31, 2018, 2017 and 2016. The following table presents the components of net periodic benefit cost:

	Pension Benefits			Postretirement Benefits		
	2018	2017	2016	**2018**	2017	2016
Service cost – benefits earned during the period	**$1,116**	$ 1,128	$ 1,112	**$ 109**	$ 138	$ 192
Interest cost on projected benefit obligation	**2,092**	1,936	1,980	**778**	809	972
Expected return on assets	**(3,190)**	(3,134)	(3,115)	**(304)**	(319)	(355)
Amortization of prior service credit	**(115)**	(123)	(103)	**(1,635)**	(1,466)	(1,277)
Actuarial (gain) loss	**(812)**	844	1,478	**(2,290)**	342	(581)
Net pension and postretirement cost (credit)	**$ (909)**	$ 651	$ 1,352	**$(3,342)**	$ (496)	$(1,049)

Other Changes in Benefit Obligations Recognized in Other Comprehensive Income

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

	Pension Benefits			Postretirement Benefits		
	2018	2017	2016	**2018**	2017	2016
Balance at beginning of year	**$ 571**	$ 575	$512	**$ 6,456**	$5,089	$5,510
Prior service (cost) credit	**(37)**	(30)	128	**864**	1,120	372
Amortization of prior service credit	**(87)**	(76)	(65)	**(1,234)**	(907)	(793)
Total recognized in other comprehensive (income) loss	**(124)**	(106)	63	**(370)**	213	(421)
Adoption of ASU 2018-02	**—**	102	—	**—**	1,154	—
Balance at end of year	**$ 447**	$ 571	$575	**$ 6,086**	$6,456	$5,089

Assumptions

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

	Pension Benefits			Postretirement Benefits		
	2018	2017	2016	**2018**	2017	2016
Weighted-average discount rate for determining benefit obligation at December 31	**4.50%**	3.80%	4.40%	**4.40%**	3.70%	4.30%
Discount rate in effect for determining service cost[1,2]	**4.20%**	4.60%	4.90%	**4.30%**	4.60%	5.00%
Discount rate in effect for determining interest cost[1,2]	**3.80%**	3.60%	3.70%	**3.60%**	3.40%	3.60%
Weighted-average interest crediting rate for cash balance pension programs[3]	**3.70%**	3.50%	3.50%	**—%**	—%	—%
Long-term rate of return on plan assets	**7.00%**	7.75%	7.75%	**5.75%**	5.75%	5.75%
Composite rate of compensation increase for determining benefit obligation	**3.00%**	3.00%	3.00%	**3.00%**	3.00%	3.00%
Composite rate of compensation increase for determining net cost (benefit)	**3.00%**	3.00%	3.10%	**3.00%**	3.00%	3.10%

[1] Weighted-average discount rate for pension benefits in effect from January 1, 2018 through May 31, 2018 was 4.00% for service cost and 3.40% for interest costs, and, from June 1, 2018 through December 31, 2018 was 4.40% for service cost and 4.00% for interest cost.
[2] Weighted-average discount rate for postretirement benefits in effect from January 1, 2018 through February 28, 2018 was 4.00% for service costs and 3.30% for interest costs, and, from March 1, 2018 through December 31, 2018 was 4.30% for service cost and 3.70% for interest cost.
[3] Weighted-average interest crediting rates for cash balance pension programs relate only to the cash balance portion of total pension benefits. A 0.50% increase in the weighted-average interest crediting rate would increase the pension benefit obligation by $130.

We recognize gains and losses on pension and postretirement plan assets and obligations immediately in our operating results. These gains and losses are measured annually as of December 31 and accordingly will be recorded during the fourth quarter, unless earlier remeasurements are required.

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

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

Expected Long-Term Rate of Return In 2019, our expected long-term rate of return is 7.00% on pension plan assets and 5.75% on postretirement plan assets. Our long-term rates of return reflect the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In setting the long-term assumed rate of return, management considers capital markets future expectations, the asset mix of the plans' investment and average historical asset return. Actual long-term returns can, in relatively stable markets, also serve as a factor in determining future expectations. We consider many factors that include, but are not limited to, historical returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisers. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the expected long-term rate of return would cause 2019 combined pension and postretirement cost to increase $265. However, any differences in the rate and actual returns will be included with the actuarial gain or loss recorded in the fourth quarter when our plans are remeasured.

Composite Rate of Compensation Increase Our expected composite rate of compensation increase cost of 3.00% in 2018 and 2017 reflects the long-term average rate of salary increases.

Mortality Tables At December 31, 2018, we updated our assumed mortality rates to reflect our best estimate of future mortality, which decreased our pension obligation by $488 and our postretirement obligations by $61. At December 31, 2017, we updated our assumed mortality rates, which decreased our pension obligation by $355 and our postretirement obligations by $95.

Healthcare Cost Trend Our healthcare cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Based on historical experience, updated expectations of healthcare industry inflation and recent prescription drug cost experience, our 2019 assumed annual healthcare prescription drug cost trend and medical cost trend for eligible participants will remain at an assumed annual and ultimate trend rate of 4.50%. In addition to the healthcare cost trend in 2018, we assumed an annual 2.50% growth in administrative expenses and an annual 3.00% growth in dental claims.

Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets (real estate and natural resources). The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. We do not have significant ERISA required contributions to our pension plans for 2019. We made a discretionary contribution of $80 to our pension trust in October 2018.

We maintain VEBA trusts to partially fund postretirement benefits; however, there are no ERISA or regulatory requirements that these postretirement benefit plans be funded annually.

The principal investment objectives are to ensure the availability of funds to pay pension and postretirement benefits as they become due under a broad range of future economic scenarios, maximize long-term investment return with an acceptable level of risk based on our pension and postretirement obligations, and diversify broadly across and within the capital markets to insulate asset values against adverse experience in any one market. Each asset class has broadly diversified characteristics. Substantial biases toward any particular investing style or type of security are sought to be avoided by managing the aggregation of all accounts with portfolio benchmarks. Asset and benefit obligation forecasting studies are conducted periodically, generally every two to three years, or when significant changes have occurred in market conditions, benefits, participant demographics or funded status. Decisions regarding investment policy are made with an understanding of the effect of asset allocation on funded status, future contributions and projected expenses.

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

	Pension Assets			Postretirement (VEBA) Assets		
	Target	**2018**	2017	Target	**2018**	2017
Equity securities:						
Domestic	15% – 25%	**16%**	23%	20% – 30%	**25%**	21%
International	7% – 17%	**12**	16	13% – 23%	**18**	15
Fixed income securities	29% – 39%	**37**	41	34% – 44%	**39**	40
Real assets	4% – 14%	**9**	10	—% – 6%	**1**	1
Private equity	2% – 12%	**8**	10	—% – 7%	**2**	2
Preferred interest	13% – 23%	**18**	—	—% – —%	**—**	—
Other	—% – 5%	**—**	—	10% – 20%	**15**	21
Total		**100%**	100%		**100%**	100%

At December 31, 2018, AT&T securities represented less than 18% of assets held by our pension trust, including preferred interest in Mobility II, and 4% of assets (primarily common stock) held by our VEBA trusts included in these financial statements.

Investment Valuation

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

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

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

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

The preferred interest is valued using an income approach.

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

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

Fair Value Measurements

See Note 12 for a discussion of fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Dollars in millions except per share amounts

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2018:

Pension Assets and Liabilities at Fair Value as of December 31, 2018				
	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 52	$ —	$ —	$ 52
Interest bearing cash	167	41	—	208
Foreign currency contracts	—	5	—	5
Equity securities:				
Domestic equities	6,912	—	1	6,913
International equities	3,594	8	—	3,602
Preferred interest	—	—	8,749	8,749
Fixed income securities:				
Corporate bonds and other investments	—	10,719	4	10,723
Government and municipal bonds	51	6,170	—	6,221
Mortgage-backed securities	—	382	—	382
Real estate and real assets	—	—	2,579	2,579
Securities lending collateral	12	1,466	—	1,478
Purchased options, futures, and swaps	—	3	—	3
Receivable for variation margin	19	—	—	19
Assets at fair value	10,807	18,794	11,333	40,934
Investments sold short and other liabilities at fair value	(657)	(6)	—	(663)
Total plan net assets at fair value	$10,150	$18,788	$11,333	$ 40,271
Assets held at net asset value practical expedient				
Private equity funds				4,384
Real estate funds				2,162
Commingled funds				5,740
Total assets held at net asset value practical expedient				12,286
Other assets (liabilities)[1]				(876)
Total Plan Net Assets				**$51,681**

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

Postretirement Assets and Liabilities at Fair Value as of December 31, 2018				
	Level 1	Level 2	Level 3	Total
Interest bearing cash	$ 45	$ 624	$ —	$ 669
Equity securities:				
Domestic equities	745	8	—	753
International equities	541	—	1	542
Fixed income securities:				
Corporate bonds and other investments	7	602	11	620
Government and municipal bonds	2	377	1	380
Mortgage-backed securities	—	283	—	283
Securities lending collateral	—	63	—	63
Assets at fair value	1,340	1,957	13	3,310
Securities lending payable and other liabilities	—	(74)	—	(74)
Total plan net assets at fair value	$1,340	$1,883	$13	$ 3,236
Assets held at net asset value practical expedient				
Private equity funds				79
Real estate funds				36
Commingled funds				973
Total assets held at net asset value practical expedient				1,088
Other assets (liabilities)[1]				(47)
Total Plan Net Assets				**$4,277**

[1] Other assets (liabilities) include amounts receivable and accounts payable.

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2018:

Pension Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ 4	$ 2	$ 2,287	$ 2,293
Realized gains (losses)	—	—	120	120
Unrealized gains (losses)	(408)	(1)	170	(239)
Transfers in	9,158	1	266	9,425
Transfers out	(4)	(1)	—	(5)
Purchases	—	8	85	93
Sales	—	(5)	(349)	(354)
Balance at end of year	**$8,750**	**$ 4**	**$2,579**	**$11,333**

Postretirement Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ —	$ 5	$ —	$ 5
Transfers in	1	8	—	9
Transfers out	—	(1)	—	(1)
Purchases	—	1	—	1
Sales	—	(1)	—	(1)
Balance at end of year	**$ 1**	**$12**	**$ —**	**$13**

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

Pension Assets and Liabilities at Fair Value as of December 31, 2017	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 96	$ —	$ —	$ 96
Interest bearing cash	7	20	—	27
Foreign currency contracts	—	2	—	2
Equity securities:				
Domestic equities	9,441	—	4	9,445
International equities	4,967	1	—	4,968
Fixed income securities:				
Corporate bonds and other investments	48	10,520	2	10,570
Government and municipal bonds	—	5,751	—	5,751
Mortgage-backed securities	—	765	—	765
Real estate and real assets	—	—	2,287	2,287
Securities lending collateral	8	2,240	—	2,248
Receivable for variation margin	6	—	—	6
Assets at fair value	14,573	19,299	2,293	36,165
Investments sold short and other liabilities at fair value	(497)	(4)	—	(501)
Total plan net assets at fair value	$14,076	$19,295	$2,293	$ 35,664
Assets held at net asset value practical expedient				
Private equity funds				4,493
Real estate funds				2,340
Commingled funds				5,142
Total assets held at net asset value practical expedient				11,975
Other assets (liabilities)[1]				(2,176)
Total Plan Net Assets				**$45,463**

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

Dollars in millions except per share amounts

Postretirement Assets and Liabilities at Fair Value as of December 31, 2017	Level 1	Level 2	Level 3	Total
Interest bearing cash	$ 603	$ 714	$ —	$ 1,317
Equity securities:				
Domestic equities	857	9	—	866
International equities	600	—	—	600
Fixed income securities:				
Corporate bonds and other investments	8	607	4	619
Government and municipal bonds	—	445	—	445
Mortgage-backed securities	—	308	1	309
Securities lending collateral	—	120	—	120
Assets at fair value	2,068	2,203	5	4,276
Securities lending payable and other liabilities	—	(121)	—	(121)
Total plan net assets at fair value	$2,068	$2,082	$ 5	$ 4,155
Assets held at net asset value practical expedient				
Private equity funds				102
Real estate funds				41
Commingled funds				1,750
Total assets held at net asset value practical expedient				1,893
Other assets (liabilities)[1]				(75)
Total Plan Net Assets				**$5,973**

[1] Other assets (liabilities) include amounts receivable and accounts payable.

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

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

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

Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2018. Because benefit payments will depend on future employment and compensation levels; average years employed; average life spans; and payment elections, among other factors, changes in any of these assumptions could significantly affect these expected amounts. The following table provides expected benefit payments under our pension and postretirement plans:

	Pension Benefits	Postretirement Benefits
2019	$ 5,399	$1,637
2020	4,835	1,633
2021	4,750	1,582
2022	4,642	1,515
2023	4,508	1,463
Years 2024 – 2028	21,320	6,358

Supplemental Retirement Plans

We also provide certain senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. While these plans are unfunded, we have assets in a designated non-bankruptcy remote trust that are independently managed and used to provide for certain of these benefits. These plans include supplemental pension benefits as well as compensation-deferral plans, some of which include a corresponding match by us based on a percentage of the compensation deferral. For our supplemental retirement plans, the projected benefit obligation was $2,397 and the net supplemental retirement pension credit was $53 at and for the year ended December 31, 2018. The projected benefit obligation was $2,344 and the net supplemental retirement pension cost was $215 at and for the year ended December 31, 2017.

We use the same significant assumptions for the composite rate of compensation increase in determining our projected benefit obligation and the net pension and postemployment benefit cost. Our discount rates of 4.40% at December 31, 2018 and 3.70% at December 31, 2017 were calculated using the same methodologies used in calculating the discount rate for our qualified pension and postretirement benefit plans.

Deferred compensation expense was $128 in 2018, $138 in 2017 and $148 in 2016.

Contributory Savings Plans

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

Our match of employee contributions to the savings plans is fulfilled with purchases of our stock on the open market or company cash. Benefit cost, which is based on the cost of shares or units allocated to participating employees' accounts or the cash contributed to participant accounts was $724, $703 and $631 for the years ended December 31, 2018, 2017 and 2016. The increases in 2018 are attributable to our acquisition of Time Warner.

NOTE 15. SHARE-BASED PAYMENTS

Under our various plans, senior and other management employees and nonemployee directors have received nonvested stock and stock units. In conjunction with the acquisition of Time Warner, restricted stock units issued under Time Warner plans were converted to AT&T share units that will be distributed in the form of AT&T common stock and cash. The shares will vest over a period of one to four years in accordance with the terms of those plans. In addition, outstanding Time Warner stock options were converted to AT&T stock options that will vest within one year. We do not intend to issue any additional grants under the Time Warner Inc. plans. Future grants to eligible employees will be issued under AT&T plans.

We grant performance stock units, which are nonvested stock units, based upon our stock price at the date of grant and award them in the form of AT&T common stock and cash at the end of a three-year period, subject to the achievement of certain performance goals. We treat the cash settled portion of these awards as a liability. We grant forfeitable restricted stock and stock units, which are valued at the market price of our common stock at the date of grant and predominantly vest over a four- or five-year period. We also grant other nonvested stock units and award them in cash at the end of a three-year period, subject to the achievement of certain market based conditions. As of December 31, 2018, we were authorized to issue up to approximately 313 million shares of common stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested stock units) to officers, employees and directors pursuant to these various plans.

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

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

	2018	2017	2016
Performance stock units	**$301**	$395	$480
Restricted stock and stock units	**153**	90	152
Other nonvested stock units	**4**	(5)	21
Stock options	**5**	—	—
Total	**$463**	$480	$653
Income tax benefit	**$114**	$184	$250

A summary of the status of our nonvested stock units as of December 31, 2018, and changes during the year then ended is presented as follows (shares in millions):

Nonvested Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2018	29	$ 38.35
Granted	15	35.53
Issued in Time Warner acquisition	17	41.23
Vested	(20)	38.50
Forfeited	(2)	38.11
Nonvested at December 31, 2018	**39**	**$38.44**

As of December 31, 2018, there was $638 of total unrecognized compensation cost related to nonvested share-based payment arrangements granted. That cost is expected to be recognized over a weighted-average period of 2.08 years. The total fair value of shares vested during the year was $766 for 2018, compared to $473 for 2017 and $614 for 2016.

It is our intent to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was $361 for 2018, $33 for 2017 and $179 for 2016.

NOTE 16. STOCKHOLDERS' EQUITY

Stock Repurchase Program From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. Our Board of Directors approved authorizations in both March 2013 and 2014 that allow us to repurchase 300 million shares of our common stock under each program. For the year ended December 31, 2018, we had repurchased approximately 13 million shares for distribution through our employee benefit plans totaling $419 under the authorizations. At December 31, 2018, we had approximately 376 million shares remaining from these authorizations. For the year ended December 31, 2017, we had repurchased approximately 7 million shares totaling $279 under the authorizations.

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

Dividend Declarations In December 2018, the Company declared an increase in its quarterly dividend to $0.51 per share of common stock. In December 2017, the Company declared an increase in its quarterly dividend to $0.50 per share of common stock.

Preferred Equity Interest We have issued 320 million Series A Cumulative Perpetual Preferred Membership Interests in Mobility II, representing all currently outstanding preferred equity interest, which pay cash distributions of $560 per annum, subject to declaration. The terms of the preferred equity interest and related documents were modified in 2018 to simplify transferability and enhance marketability.

A holder of the preferred equity interest may put the preferred equity interest to Mobility II on or after the earliest of certain events or September 9, 2020. Mobility II may redeem the preferred equity interest upon a change in control of Mobility II or on or after September 9, 2022. When either options arise due to a passage of time, that option may be exercised only during certain periods.

The price at which a put option or a redemption option can be exercised is the greater of (1) the market value of the interest as of the last date of the quarter preceding the date of the exercise of a put or redemption option and (2) the sum of (a) twenty-five dollars ($8,000 in the aggregate) plus (b) any accrued and unpaid distributions. The redemption price may be paid with cash, AT&T Inc. common stock, or a combination of cash and AT&T Inc. common stock, at Mobility II's sole election. In no event shall Mobility II be required to deliver more than 250 million shares of AT&T common stock to settle put and redemption options. We have the intent and ability to settle the preferred equity interest with cash. So long as the distributions are declared and paid, the terms of the preferred equity interest will not impose any limitations on cash movements between affiliates, or our ability to declare a dividend on or repurchase AT&T shares.

NOTE 17. SALES OF EQUIPMENT INSTALLMENT RECEIVABLES

We offer our customers the option to purchase certain wireless devices in installments over a specified period of time and, in many cases, once certain conditions are met, they may be eligible to trade in the original equipment for a new device and have the remaining unpaid balance paid or settled. As of December 31, 2018 and December 31, 2017, gross equipment installment receivables of $5,994 and $6,079 were included on our consolidated balance sheets, of which $3,457 and $3,340 are notes receivable that are included in "Accounts receivable - net."

In 2014, we entered into an uncommitted agreement pertaining to the sale of equipment installment receivables and related security with Citibank and various other relationship banks as purchasers (collectively, the Purchasers). Under this agreement, we transfer certain receivables to the Purchasers for cash and additional consideration upon settlement of the receivables, referred to as the deferred purchase price. Since 2014, we have made beneficial modifications to the agreement. During 2017, we modified the agreement and entered into a second uncommitted agreement with the Purchasers such that we receive more upfront cash consideration at the time the receivables are transferred to the Purchasers. Additionally, in the event a customer trades in a device prior to the end of the installment contract period, we agree to make a payment to the Purchasers equal to any outstanding remaining installment receivable balance. Accordingly, we record a guarantee obligation to the Purchasers for this estimated amount at the time the receivables are transferred. Under the terms of the agreement, we continue to bill and collect the payments from our customers on behalf of the Purchasers. As of December 31, 2018, total cash proceeds received, net of remittances (excluding amounts returned as deferred purchase price), were $6,508.

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

	2018	2017	2016
Gross receivables sold	**$9,391**	$8,058	$7,629
Net receivables sold[1]	**8,871**	7,388	6,913
Cash proceeds received	**7,488**	5,623	4,574
Deferred purchase price recorded	**1,578**	2,077	2,368
Guarantee obligation recorded	**361**	215	—

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

The deferred purchase price and guarantee obligation are initially recorded at estimated fair value and subsequently carried at the lower of cost or net realizable value.

The estimation of their fair values is based on remaining installment payments expected to be collected and the expected timing and value of device trade-ins. The estimated value of the device trade-ins considers prices offered to us by independent third parties that contemplate changes in value after the launch of a device model. The fair value measurements used for the deferred purchase price and the guarantee obligation are considered Level 3 under the Fair Value Measurement and Disclosure framework (see Note 12).

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

	2018	2017	2016
Fair value of repurchased receivables	**$1,480**	$1,699	$1,675
Carrying value of deferred purchase price	**1,393**	1,524	1,638
Gain (loss) on repurchases[1]	**87**	175	37

[1] These gains (losses) are included in "Selling, general and administrative" in the consolidated statements of income.

At December 31, 2018 and December 31, 2017, our deferred purchase price receivable was $2,370 and $2,749, respectively, of which $1,448 and $1,781 are included in "Other current assets" on our consolidated balance sheets, with the remainder in "Other Assets." The guarantee obligation at December 31, 2018 and December 31, 2017 was $439 and $203, respectively, of which $196 and $55 are included in "Accounts payable and accrued liabilities" on our consolidated balance sheets, with the remainder in "Other noncurrent liabilities." Our maximum exposure to loss as a result of selling these equipment installment receivables is limited to the total amount of our deferred purchase price and guarantee obligation.

The sales of equipment installment receivables did not have a material impact on our consolidated statements of income or to "Total Assets" reported on our consolidated balance sheets. We reflect cash receipts on owned equipment installment receivables as cash flows from operations in our consolidated statements of cash flows. With the retrospective adoption of ASU 2016-15 in 2018 (see Note 1), cash receipts on the deferred purchase price are now classified as cash flows from investing activities instead of cash flows from operating activities for all periods presented.

The outstanding portfolio of installment receivables derecognized from our consolidated balance sheets, but which we continue to service, was $9,065 and $7,446 at December 31, 2018 and December 31, 2017.

NOTE 18. TOWER TRANSACTION

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

We determined our continuing involvement with the tower assets prevented us from achieving sale-leaseback accounting for the transaction, and we accounted for the cash proceeds from Crown Castle as a financing obligation on our consolidated balance sheets. We record interest on the financing obligation using the effective interest method at a rate of approximately 3.9%. The financing obligation is increased by interest expense and estimated future net cash flows generated and retained by Crown Castle from operation of the tower sites, and reduced by our contractual payments. We continue to include the tower assets in "Property, plant and equipment" on our consolidated balance sheets and depreciate them accordingly. At December 31, 2018 and 2017, the tower assets had a balance of $843 and $882, respectively. Our depreciation expense for these assets was $39 for each of 2018, 2017 and 2016.

Payments made to Crown Castle under this arrangement were $239 for 2018. At December 31, 2018, the future minimum payments under the sublease arrangement are $244 for 2019, $248 for 2020, $253 for 2021, $258 for 2022, $264 for 2023 and $1,530 thereafter.

NOTE 19. FIRSTNET

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

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

As of December 31, 2018, we have submitted $240 in sustainability payments, with future payments under the agreement of $120 for 2019, 2020, and 2021; $195 for 2022 and 2023; and $17,010 thereafter. Amounts paid to FirstNet which are not expected to be returned to AT&T to be reinvested into our network will be expensed in the period paid. In the event FirstNet does not reinvest any funds to construct, operate, improve and maintain this network, our maximum exposure to loss is the total amount of the sustainability payments, which would be reflected in higher expense.

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

As of December 31, 2018, we have completed certain task orders related to the construction of the network and have collected $1,998 to date from FirstNet. We have reflected these amounts as a reduction to the costs incurred to complete the task orders. We anticipate collecting the remainder of the $6,500 from FirstNet as we achieve milestones set out by FirstNet over the next four years.

NOTE 20. CONTINGENT LIABILITIES

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

We have contractual obligations to purchase certain goods or services from various other parties. Our purchase obligations are expected to be approximately $16,172 in 2019, $18,687 in total for 2020 and 2021, $10,310 in total for 2022 and 2023 and $18,492 in total for years thereafter.

See Note 12 for a discussion of collateral and credit-risk contingencies.

NOTE 21. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Consolidated Balance Sheets	**2018**	2017
Current customer fulfillment costs (included in Other current assets)	**$ 4,090**	$ 3,877
Accounts payable and accrued liabilities:		
Accounts payable[1]	**$27,018**	$24,439
Accrued payroll and commissions	**3,379**	2,284
Current portion of employee benefit obligation	**1,464**	1,585
Accrued interest	**2,557**	2,661
Other	**8,766**	3,501
Total accounts payable and accrued liabilities	**$43,184**	$34,470

[1] December 31, 2018 and 2017 balances include payables of $1,984 and $927 under our vendor financing program and $1,855 and $39 of other supplier financing, respectively.

Consolidated Statements of Income	**2018**	2017	2016
Advertising expense	**$5,100**	$ 3,772	$ 3,768
Interest expense incurred	**$8,450**	$ 7,203	$ 5,802
Capitalized interest	**(493)**	(903)	(892)
Total interest expense	**$7,957**	$ 6,300	$ 4,910

Cash and Cash Flows We typically maintain our restricted cash balances for purchases and sales of certain investment securities and funding of certain deferred compensation benefit payments. The following tables summarize cash and cash equivalents and restricted cash balances contained on our consolidated balance sheets, as well as cash paid during the periods for interest and income taxes:

	December 31,			
Cash and Cash Equivalents and Restricted Cash	**2018**	2017	2016	2015
Cash and cash equivalents	**$5,204**	$50,498	$5,788	$5,121
Restricted cash in Other current assets	**61**	6	7	5
Restricted cash in Other Assets	**135**	428	140	147
Cash and cash equivalents and restricted cash	**$5,400**	$50,932	$5,935	$5,273

Consolidated Statements of Cash Flows	**2018**	2017	2016
Cash paid during the year for:			
Interest	**$8,818**	$6,622	$5,696
Income taxes, net of refunds	**(354)**	2,006	3,721

Dollars in millions except per share amounts

Noncash Investing and Financing Activities In 2018, we recorded approximately $2,162 of new vendor financing commitments related to capital investments. 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.

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.

NOTE 22. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables represent our quarterly financial results:

	2018 Calendar Quarter				
	First[1]	**Second[1]**	**Third**	**Fourth[1]**	**Annual**
Total Operating Revenues	$38,038	$38,986	$45,739	$47,993	$170,756
Operating Income	6,201	6,466	7,269	6,160	26,096
Net Income	4,759	5,248	4,816	5,130	19,953
Net Income Attributable to AT&T	4,662	5,132	4,718	4,858	19,370
Basic Earnings Per Share Attributable to AT&T[2]	$ 0.75	$ 0.81	$ 0.65	$ 0.66	$ 2.85
Diluted Earnings Per Share Attributable to AT&T[2]	$ 0.75	$ 0.81	$ 0.65	$ 0.66	$ 2.85
Stock Price					
High	$ 39.29	$ 36.39	$ 34.28	$ 34.30	
Low	34.44	31.17	30.13	26.80	
Close	35.65	32.11	33.58	28.54	

[1] Includes actuarial gains and losses on pension and postretirement benefit plans (Note 14).
[2] Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

	2017 Calendar Quarter				
	First	Second[1]	Third	Fourth[1,2]	Annual
Total Operating Revenues	$39,365	$39,837	$39,668	$41,676	$160,546
Operating Income	6,356	6,526	5,807	1,281	19,970
Net Income	3,574	4,014	3,123	19,136	29,847
Net Income Attributable to AT&T	3,469	3,915	3,029	19,037	29,450
Basic Earnings Per Share Attributable to AT&T[3]	$ 0.56	$ 0.63	$ 0.49	$ 3.08	$ 4.77
Diluted Earnings Per Share Attributable to AT&T[3]	$ 0.56	$ 0.63	$ 0.49	$ 3.08	$ 4.76
Stock Price					
High	$ 43.02	$ 41.69	$ 39.41	$ 39.51	
Low	40.61	37.46	35.59	32.86	
Close	41.55	37.73	39.17	38.88	

[1] Includes actuarial gains and losses on pension and postretirement benefit plans (Note 14).
[2] Includes an asset abandonment charge (Note 7) and the impact of federal corporate income tax reform (Note 13).
[3] Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

Report of Management

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

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

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

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

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

Assessment of Internal Control

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

AT&T management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework* (2013 framework). We have excluded from the scope of our assessment of internal control over financial reporting the operations and related assets of Warner Media, LLC (formerly Time Warner Inc. and referred to as "Warner Media") which we acquired in 2018. At December 31, 2018 and for the period from acquisition through December 31, 2018, total assets and operating revenues subject to Warner Media's internal control over financial reporting represented 24.1% and 9.7% of AT&T's consolidated total assets and total revenues as of and for the year ended December 31, 2018. Based on its assessment, AT&T management believes that, as of December 31, 2018, the company's internal control over financial reporting is effective based on those criteria.

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

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

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2019 expressed an unqualified opinion thereon.

Adoption of Accounting Standards Updates

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2018, the Company changed its method for recognizing revenue as a result of the modified retrospective adoption of Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. Additionally, effective January 1, 2018, the Company adopted certain other ASUs requiring retrospective application. Specifically, the Company (i) changed the presentation of certain components of its net periodic benefit costs in the consolidated statements of income as a result of the adoption of ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,* (ii) changed the classification of certain cash receipts in the statements of cash flows as a result of the adoption of ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,* and (iii) included restricted cash in the reconciliation of beginning and ending cash and cash equivalents in the statements of cash flows as a result of the adoption of ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.*

Basis for Opinion

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

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

Ernst & Young LLP

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

Dallas, Texas
February 20, 2019

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited AT&T Inc.'s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, AT&T Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Report of Management, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Warner Media, LLC (formerly Time Warner Inc. and referred to as "Warner Media"), which is included in the 2018 consolidated financial statements of the Company and constituted 24.1% of total assets as of December 31, 2018 and 9.7% of operating revenues for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Warner Media.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2018 consolidated financial statements of the Company and our report dated February 20, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Ernst & Young LLP

Dallas, Texas
February 20, 2019

TO OUR INVESTORS (pp. 2-11)

[1] Based on GWS OneScore Sept. 2018. Excludes crowdsourced studies.

[2] Using results reported by AT&T following the June 14, 2018 acquisition, combined with (1) historical results reported by Time Warner, including their historical adjustments, (2) results of AT&T Regional Sports Networks, which were recast in the WarnerMedia segment and (3) results of Otter Media Holdings, which were included in the WarnerMedia segment following AT&T's Aug. 7, 2018 acquisition of the controlling interest.

[3] Based on six months ended December 31, 2018. WarnerMedia segment revenues shown net of eliminations.

[4] Based on six months ended December 31, 2018. Latin America/Other includes our Latin America and Xandr segments, and our Corporate and Other results, which include eliminations and consolidation. Reconciliations between GAAP (generally accepted accounting principles) and non-GAAP measures are available on AT&T's Investor Relations website. 2018 reconciliations of Consolidated Adjusted EBITDA for the third and fourth quarters of 2018 are available on the "SEC Filings" portion of our website in the Forms 8-K dated October 24, 2018 and January 30, 2019. Consolidated Adjusted EBITDA for the third quarter and fourth quarter of 2018 was $15.9 billion and $15.0 billion, respectively.

[5] Excludes expected FirstNet reimbursements in the $1 billion range; includes potential vendor financing.

[6] Free cash flow is cash from operating activities minus capital expenditures.

[7] Free cash flow dividend payout ratio is dividends paid divided by free cash flow.

[8] Adjustments to EPS include merger-related amortization in the range of $7.5 billion, a non-cash mark-to-market benefit plan gain/loss, merger integration and other adjustments. We expect the mark-to-market adjustment which is driven by interest rates and investment returns that are not reasonably estimable at this time, to be a significant item. Our EPS, free cash flow and EBITDA estimates depend on future levels of revenues and expenses, which are not reasonably estimable at this time. Accordingly, we cannot provide a reconciliation between our non-GAAP metrics and the reported GAAP metrics without unreasonable effort. (Our 2019 outlook for end-of-year net debt=to- EBITDA ratio, on an adjusted basis, excludes the impact of a new accounting standard for leases (ASC 842) that is effective beginning January 1, 2019 to be consistent with our existing multi-year guidance on this debt ratio.)

FINANCIAL HIGHLIGHTS (p. 11)

[1] Reconciliations between GAAP and non-GAAP measures are available on AT&T's Investor Relations website. 2018 and 2017 full-year reconciliations are available on the "SEC Filings" portion of our website in the 8-K dated January 30, 2019. 2018 cash from operations was $43.6 billion with $21.3 billion in capital expenditures. 2017 cash from operations was $38.0 billion with $21.6 billion in capital expenditures. For 2016, Free Cash Flow of $16.034 billion is defined as cash from operations of $38.442 billion minus capital expenditures of $22.408 billion.

[2] Reconciliations between GAAP and non-GAAP measures are available on AT&T's Investor Relations website. 2018 and 2017 reconciliations are available on the "SEC Filings" portion of our website in the 8-K dated January 30, 2019 and the 2016 reconciliations are available in the 8-K dated January 25, 2017. 2018 reported earnings per diluted share was $2.85 per diluted share; adjusted earnings per diluted share was $3.52, up primarily due to lower rates associated with tax reform, the impact of ASC 606 and the acquisition of Time Warner. 2017 reported earnings per diluted share was $4.76, reflecting the impact of the 2017 Tax Cuts and Jobs Act; adjusted earnings per diluted share was $3.05, which included $0.13 impact from the tax law passed in the fourth quarter of 2017. 2016 earnings per diluted share was $2.10; adjusted diluted earnings per share was $2.84.

AT&T COMMUNICATIONS (p. 12)

[1] Excludes impact of new revenue recognition accounting standard (ASC 606) and our policy election to record Universal Service Fund and other regulatory fees on a net basis.

[2] Based on GWS OneScore Sept. 2018 report. Excludes crowdsourced studies.

[3] Based on six months ended December 31, 2018.

WARNERMEDIA (p. 13)

[1] Using historical results reported by Time Warner, including their historical adjustments, (2) results of AT&T Regional Sports Networks, which were recast in the WarnerMedia segment and (3) results of Otter Media Holdings, which were included in the WarnerMedia segment following AT&T's Aug. 7, 2018 acquisition of the controlling interest.

[2] Total gross revenues for the WarnerMedia business units, on a standalone basis, for the six months ended December 31, 2018 were $17.7 billion.As shown on page 5, WarnerMedia comprised 17% of consolidated revenues for this six-month period which reflects net revenues of $15.7 billion, after AT&T intercompany eliminations of $1.7 billion and intracompany Warner Bros. eliminations and other WarnerMedia operations of $0.3 billion.

AT&T LATIN AMERICA (p. 14)

[1] As of the third quarter of 2018.

[2] "Reliability" is derived using statistical analysis based on the weighted average (50/50) for voice and data reliability in 2G, 3G and 4G LTE networks. This statistical analysis was applied to reports based on third-party drive tests in Mexico from November 27, 2017 to March 24, 2018.

[3] Based on six months ended December 31, 2018.

AT&T Inc. Board of Directors

Randall L. Stephenson, 58 [4]

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

Matthew K. Rose, 59 [3,4,5]

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

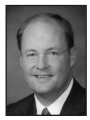
Samuel A. Di Piazza, Jr, 68 [1,4,6]

Retired Global Chief Executive Officer
PricewaterhouseCoopers International Limited
Director since 2015
DIRECTV Director 2010–2015
Background: Public accounting

Richard W. Fisher, 69 [2,3]

Former President and
Chief Executive Officer
Federal Reserve Bank
of Dallas
Director since 2015
Background: Finance, trade, regulatory

Scott T. Ford, 56 [2,4,5]



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

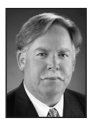
Glenn H. Hutchins, 63 [2,6]

Chairman
North Island
Co-Founder
Silver Lake
Director since 2014
Background: Technology, public policy

William E. Kennard, 62 [3,6]

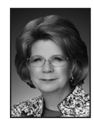
Former U.S. Ambassador to the
European Union
Former Chairman of the Federal
Communications Commission
Director since 2014
Background: Law, telecommunications,
public policy

Michael B. McCallister, 66 [1,5]



Retired Chairman of the Board
and Chief Executive Officer
Humana Inc.
Director since 2013
Background: Health care

Beth E. Mooney, 64 [2,3]



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

Joyce M. Roché,* 71 [3,4,5]

Retired President and
Chief Executive Officer
Girls Incorporated
Director since 1998
Southern New England Telecommunications
Director 1997–1998
Background: Marketing

Cynthia B. Taylor, 57 [1,6]

President and Chief Executive Officer
Oil States International, Inc.
Director since 2013
Background: Public accounting,
oil and gas

Laura D'Andrea Tyson, Ph.D., 71 [1,4,6]

Distinguished Professor of the
Graduate School, Haas School
of Business
Chair, Blum Center for Developing
Economies Board of Trustees
University of California, Berkeley
Director since 1999
Ameritech Director 1997–1999
Background: Economics, education, public policy

Geoffrey Y. Yang, 59 [2,5]

Founding Partner
and Managing Director
Redpoint Ventures
Director since 2016
Background: Technology, media, entertainment

Committees of the Board:
(1) Audit
(2) Corporate Development and Finance
(3) Corporate Governance and Nominating
(4) Executive
(5) Human Resources
(6) Public Policy and Corporate Reputation

(Information is provided
as of February 20, 2019.)

*Retiring April 26, 2019

Executive Officers of AT&T Inc. and Its Affiliates

Randall Stephenson, 58

Chairman, Chief Executive Officer and President

Bill Blase, Jr., 63

Senior Executive Vice President – Human Resources

John Donovan, 58

Chief Executive Officer
AT&T Communications, LLC

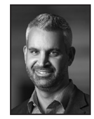
David Huntley, 60

Senior Executive Vice President and Chief Compliance Officer

Lori Lee, 53

Chief Executive Officer – AT&T Latin America and Global Marketing Officer

Brian Lesser, 44

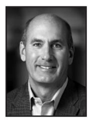


Chief Executive Officer – Xandr
AT&T Services, Inc.

David McAtee II, 50

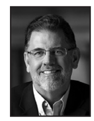
Senior Executive Vice President and General Counsel

John Stankey, 56



Chief Executive Officer
Warner Media, LLC

John Stephens, 59



Senior Executive Vice President and Chief Financial Officer

(Information is provided as of February 20, 2019.)