

AT&T INC. FINANCIAL REVIEW 2020

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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 subsidiaries and affiliates which we control, 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 subsidiaries and partnerships which we do not control but 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, including potential impacts arising from the COVID-19 pandemic and other estimates of probable losses and expenses, that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain prior-period amounts have been conformed to the current period’s presentation. See Note 4 for a discussion on the recast of our segment results and Note 9 for a discussion of the separation of our former Entertainment Group into two reporting units, Video and Broadband.

Accounting Policies and Adopted Accounting Standards

Credit Losses As of January 1, 2020, we adopted, through modified retrospective application, the Financial Accounting Standards Board’s (FASB) Accounting Standards Update (ASU) No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” or Accounting Standards Codification (ASC) 326 (ASC 326), which

replaces the incurred loss impairment methodology under prior GAAP with an expected credit loss model. ASC 326 affects trade receivables, loans, contract assets, certain beneficial interests, off-balance-sheet credit exposures not accounted for as insurance and other financial assets that are not subject to fair value through net income, as defined by the standard. Under the expected credit loss model, we are required to consider future economic trends to estimate expected credit losses over the lifetime of the asset. Upon adoption on January 1, 2020, we recorded a \$293 reduction to “Retained earnings,” \$395 increase to “Allowances for credit losses” applicable to our trade and loan receivables, \$10 reduction of contract assets, \$105 reduction of net deferred income tax liability and \$7 reduction of “Noncontrolling interest.” Our adoption of ASC 326 did not have a material impact on our financial statements.

Leases As of January 1, 2019, we adopted, with modified retrospective application, the FASB’s ASU No. 2016-02, “Leases (Topic 842)” (ASC 842), which replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements (see Note 8). 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 are classified as either a finance or an operating lease without relying upon bright-line tests.

The key change upon adoption of the standard was balance sheet recognition of operating leases, given that the recognition of lease expense on our income statement is similar to our historical accounting. Using the modified retrospective transition method of adoption, we did not adjust the balance sheet for comparative periods but recorded a cumulative effect adjustment to retained earnings on January 1, 2019. We elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed us to carry forward our historical lease classification. We also elected the practical expedient related to land easements, allowing us to carry forward our accounting treatment for land easements on existing agreements that were not accounted for as leases. We excluded leases with original terms of one year or less. Additionally, we elected to not separate lease and non-lease components for certain classes of assets. Our accounting for finance leases did not change from our prior accounting for capital leases.

The adoption of ASC 842 resulted in the recognition of an operating lease liability of \$22,121 and an operating right-of-use asset of the same amount. Existing prepaid and deferred rent accruals were recorded as an offset to the right-of-use asset, resulting in a net asset of \$20,960. The cumulative effect of the adoption to retained earnings was an increase of \$316 reflecting the reclassification of deferred gains related to sale/leaseback transactions. The standard did not materially impact our income statements or statements of cash flows, and had no impact on our debt-covenant compliance under our current agreements.

Deferral of Episodic Television and Film Costs In March 2019, the FASB issued ASU No. 2019-02, "Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350): Improvements to Accounting for Costs of Films and License Agreements for Program Materials" (ASU 2019-02), which we early adopted as of January 1, 2019, with prospective application. The standard eliminates certain revenue-related constraints on capitalization of inventory costs for episodic television that existed under prior guidance. In addition, the balance sheet classification requirements that existed in prior guidance for film production costs and programming inventory were eliminated. As of January 1, 2019, we reclassified \$2,274 of our programming inventory costs from "Other current assets" to "Other Assets" in accordance with the guidance (see Note 11). This change in accounting did not materially impact our income statement.

Revenue Recognition As of January 1, 2018, we adopted 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)

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

(accumulated OCI). 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 OCI.

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), which was enacted on December 22, 2017, 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. 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, as allowed by the Securities and Exchange Commission (SEC) in Staff Accounting Bulletin (SAB) 118. (See Note 14)

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, 2020, we held \$2,842 in cash and \$6,898 in money market funds and other cash equivalents. Of our total cash and cash equivalents, \$2,205 resided in foreign jurisdictions, some of which is subject to restrictions on repatriation.

Allowance for Credit Losses We record expense to maintain an allowance for credit losses 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 allowances for trade receivables and loans, we consider the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends and general economic factors, including bankruptcy rates. We also consider future economic trends to estimate expected credit losses over the lifetime of the asset. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

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 \$3,592 at December 31, 2020 and \$2,864 at December 31, 2019.

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, streaming 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 is carried at the lower of unamortized cost or fair 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, streaming and OTT services that are not advertising-supported, an evaluation of the fair value of unamortized programming costs is performed based on services’ licensed programming taken as a whole. Specifically, the fair value for all premium pay television, streaming 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 fair value, which could result in an impairment (see Note 11).

Film and Television Production Cost Recognition, Participations and Residuals and Impairments Film and television production costs on our consolidated balance sheets 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. For films and television programs predominantly monetized individually, 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 are determined using the film forecast computation method. Under this method, the amortization of capitalized costs and the accrual of participations and residuals are based on the proportion of the film’s (or television program’s) revenues recognized for such period

to the film's (or television program's) estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a film's (or television program's) life cycle).

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. (See Note 11)

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, streaming 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 generally does not 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 were updated based on information available during the film's production and, upon release, the actual results of each film.

For a film (or television program) predominantly monetized as part of a film (or television program) group, the amount of capitalized film and television production costs is amortized using a reasonably reliable estimate of the portion of unamortized film costs that is representative of the use of the film. Production costs are expensed as the film (or television program) is exhibited or exploited.

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 an impairment of long-lived assets of the video business and other network asset abandonments.

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 – Net" 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.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

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 9).

Goodwill represents the excess of consideration paid over the fair value of identifiable net assets acquired in business combinations. Wireless 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 domestic wireless licenses have occurred routinely and at nominal cost. We have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our FCC wireless licenses.

During 2019, in conjunction with the renewal process of certain wireless licenses in Mexico, we reassessed the estimated economic lives and renewal assumptions for these licenses. As a result, we have changed the life of these licenses from indefinite to finite-lived. On January 1, 2019, we began amortizing our wireless licenses in Mexico over their average remaining economic life of 25 years. This change in accounting does not materially impact our income statement.

During the first quarter of 2020, in conjunction with the nationwide launch of AT&T TV and our customers' continued shift from linear to streaming video services, we reassessed the estimated economic lives and renewal assumptions for our orbital slot licenses. As a result, we have changed the estimated lives of our orbital slot licenses from indefinite to finite-lived, effective January 1, 2020, and began amortizing these licenses using the sum-of-the-months-digits method over their average remaining economic life of 15 years at January 1, 2020. This change in accounting increased amortization expense \$1,504, or \$0.16 per diluted share available to common stock for 2020.

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. During the first quarter of 2020, we reassessed and changed the estimated economic lives of certain trade names in our Latin America business from indefinite to finite-lived and began amortizing them using the straight-line method over their average remaining economic life of

15 years. This change had an insignificant impact on our financial statements.

Goodwill, FCC wireless 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 carrying amount 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. FCC 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. Prior to 2020, orbital slots were similarly aggregated for purposes of impairment testing and valued using a discounted cash flow approach. 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 estimated useful lives (see Note 9). As of January 1, 2020, on a prospective basis, orbital slots are amortized using the sum-of-the-months-digits method of amortization over their average remaining economic life. 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. These assets, along with other long-lived assets, are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable.

Advertising Costs We expense advertising costs for products and services or for promoting our corporate image as incurred (see Note 22).

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 use 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 13).

Pension and Other Postretirement Benefits See Note 15 for a comprehensive discussion of our pension and postretirement benefits, 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

Income Taxes In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" (ASU 2019-12), which is expected to simplify income tax accounting requirements in areas deemed costly and complex. The amendments under ASU 2019-12 will be effective as of January 1, 2021, and interim periods within that year, with early adoption permitted in its entirety as of the beginning of the year of adoption. At adoption, the guidance allows for modified retrospective application through a cumulative effect adjustment to retained earnings. We do not expect ASU 2019-12 to have a material impact on our financial statements.

Reference Rate Reform In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" (ASU 2020-04, as amended), which provides optional expedients, and allows for certain exceptions to existing GAAP, for contract modifications triggered by the expected market transition of certain benchmark interest rates to alternative reference rates. ASU 2020-04 applies to contracts, hedging relationships, certain derivatives and other arrangements that reference the London Interbank Offering Rate (LIBOR) or any other rates ending after December 31, 2022. ASU 2020-04 became effective immediately. We are evaluating the impact of our adoption of ASU 2020-04, including optional expedients, to our financial statements.

Convertible Instruments In August 2020, the FASB issued ASU No. 2020-06, "Debt—Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" (ASU 2020-06), which eliminated certain separation models regarding cash conversion and beneficial conversion features to simplify

reporting for convertible instruments as a single liability or equity, with no separate accounting for embedded conversion features. ASU 2020-06 will be effective for fiscal years beginning after December 31, 2021, under modified retrospective or full retrospective application, subject to early adoption in 2021. We are evaluating the impact of our adoption of ASU 2020-06 on our financial statements.

NOTE 2. EARNINGS PER SHARE

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

Year Ended December 31,	2020	2019	2018
Numerators			
Numerator for basic earnings per share:			
Net Income (Loss)	\$(3,821)	\$14,975	\$19,953
Less: Net Income Attributable to Noncontrolling Interest	(1,355)	(1,072)	(583)
Net Income (Loss) Attributable to AT&T	(5,176)	13,903	19,370
Less: Preferred Stock Dividends	(193)	(3)	—
Net Income (Loss) Attributable to Common Stock	(5,369)	13,900	19,370
Dilutive potential common shares:			
Share-based payment ¹	23	21	19
Numerator for diluted earnings per share	\$(5,346)	\$13,921	\$19,389
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted average number of common shares outstanding	7,157	7,319	6,778
Dilutive potential common shares:			
Share-based payment (in shares) ¹	26	29	28
Denominator for diluted earnings per share	7,183	7,348	6,806
Basic Earnings Per Share			
Attributable to Common Stock	\$ (0.75)	\$ 1.90	\$ 2.85
Diluted Earnings Per Share			
Attributable to Common Stock ¹	\$ (0.75)	\$ 1.89	\$ 2.85

¹ For 2020, dilutive potential common shares are not included in the computation of diluted earnings per share because their effect is antidilutive as a result of the net loss.

In the first quarter of 2020, we completed an accelerated share repurchase agreement with a third-party financial institution to repurchase AT&T common stock (see Note 17). Under the terms of the agreement, we paid the financial institution \$4,000 and received 104.8 million shares.

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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, 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 ⁴	—	(658)	—	—	(658)
Balance as of December 31, 2018	(3,084)	(2)	818	6,517	4,249
Other comprehensive income (loss)					
before reclassifications	28	50	(900)	3,457	2,635
Amounts reclassified from accumulated OCI	— ¹	— ¹	45 ²	(1,459) ³	(1,414)
Net other comprehensive income (loss)	28	50	(855)	1,998	1,221
Balance as of December 31, 2019	(3,056)	48	(37)	8,515	5,470
Other comprehensive income (loss)					
before reclassifications	(870)	78	(811)	2,250	647
Amounts reclassified from accumulated OCI	— ¹	(15) ¹	69 ²	(1,841) ³	(1,787)
Net other comprehensive income (loss)	(870)	63	(742)	409	(1,140)
Balance as of December 31, 2020	\$(3,926)	\$ 111	\$ (779)	\$8,924	\$4,330

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 13).

³ The amortization of prior service credits associated with postretirement benefits is included in "Other income (expense) – net" in the consolidated statements of income (see Note 15).

⁴ 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 comprised of 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 three reportable segments: (1) Communications, (2) WarnerMedia and (3) Latin America.

We have recast our segment results for all prior periods to include our prior Xandr segment within our WarnerMedia segment and to remove the Crunchyroll anime business that is classified as held-for-sale and removed from the WarnerMedia segment, instead including it in Corporate and Other.

We also evaluate segment and business unit performance based on EBITDA and/or EBITDA margin. EBITDA 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 depreciation and amortization expenses incurred in operating contribution nor is it burdened by cash used for debt service requirements and thus does not reflect available funds for distributions, reinvestment or other discretionary uses. EBITDA margin is EBITDA divided by total revenues.

The **Communications segment** provides wireless and wireline telecom, video and broadband services to consumers located in the U.S. and businesses globally. Our business strategies reflect bundled product offerings that cut across product lines and utilize shared assets. In December 2020, we changed our management strategy and reevaluated our domestic video business, allowing us to maximize value in our domestic video business and further accelerate our ability to innovate and execute in our fast-growing broadband and fiber business. In conjunction with the strategy change, we separated the former Entertainment Group into two business units, Video and Broadband, which includes legacy telephony operations. We have recast our results for all prior periods to split the Entertainment Group into two separate business units, Video and Broadband, and removed video operations from Business Wireline, combining all video operations in the Video business unit. This segment contains the following business units:

- **Mobility** provides nationwide wireless service and equipment.
- **Video** provides video, including over-the-top (OTT) services and also sells multiplatform advertising services as video revenues.
- **Broadband** provides internet, including broadband fiber, and legacy telephony voice communication services to residential customers.
- **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 of Eliminations & Other included in the WarnerMedia segment have been recast to include Xandr, previously a separate reportable segment, and to remove the Crunchyroll anime business that was classified as held-for-sale. This segment contains the following:

- **Turner** 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 HBO Max domestically and premium pay, basic tier television internationally, and content licensing and home entertainment.
- **Warner Bros.** primarily 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.

- **Eliminations & Other** includes the Xandr advertising business, and also removes transactions between the Turner, Home Box Office and Warner Bros. business units, including internal sales of content to the HBO Max platform that began in the fourth quarter of 2019 (see Note 5).

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 in Latin America and the Caribbean.
- **Mexico** provides wireless service and equipment to customers in Mexico.

Corporate and Other reconciles our segment results to consolidated operating income and income before income taxes, and includes:

- *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, and (4) the reclassification of the amortization of prior service credits, which we continue to report with segment operating expenses, to consolidated "Other income (expense) – net."
- *Acquisition-related items*, which consists of items associated with the merger and integration of acquired businesses, including amortization of intangible assets.
- *Certain significant items*, which includes (1) employee separation charges associated with voluntary and/or strategic offers, (2) losses resulting from asset impairments and abandonments, 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 channel distribution 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.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

For the year ended December 31, 2020

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Communications							
Mobility	\$ 72,564	\$ 42,106	\$ 30,458	\$ 8,086	\$ 22,372	\$ —	\$22,372
Video	28,610	24,619	3,991	2,262	1,729	—	1,729
Broadband	12,318	7,582	4,736	2,914	1,822	—	1,822
Business Wireline	25,358	15,534	9,824	5,226	4,598	—	4,598
Total Communications	138,850	89,841	49,009	18,488	30,521	—	30,521
WarnerMedia							
Turner	12,568	6,954	5,614	277	5,337	(2)	5,335
Home Box Office	6,808	6,028	780	98	682	16	698
Warner Bros.	12,154	9,917	2,237	169	2,068	(70)	1,998
Eliminations and other	(1,088)	(1,320)	232	127	105	74	179
Total WarnerMedia	30,442	21,579	8,863	671	8,192	18	8,210
Latin America							
Vrio	3,154	2,800	354	520	(166)	24	(142)
Mexico	2,562	2,636	(74)	513	(587)	—	(587)
Total Latin America	5,716	5,436	280	1,033	(753)	24	(729)
Segment Total	175,008	116,856	58,152	20,192	37,960	\$ 42	\$38,002
Corporate and Other							
Corporate ¹	1,932	3,974	(2,042)	300	(2,342)		
Acquisition-related items	—	468	(468)	8,012	(8,480)		
Certain significant items	—	19,156	(19,156)	14	(19,170)		
Eliminations and consolidations	(5,180)	(3,615)	(1,565)	(2)	(1,563)		
AT&T Inc.	\$171,760	\$136,839	\$ 34,921	\$28,516	\$ 6,405		

¹ Includes \$2,442 for the reclassification of prior service credit amortization.

For the year ended December 31, 2019

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Communications							
Mobility	\$ 71,056	\$ 40,681	\$30,375	\$ 8,054	\$22,321	\$ —	\$22,321
Video	32,124	27,599	4,525	2,461	2,064	—	2,064
Broadband	13,012	7,451	5,561	2,880	2,681	—	2,681
Business Wireline	26,167	16,069	10,098	4,934	5,164	—	5,164
Total Communications	142,359	91,800	50,559	18,329	32,230	—	32,230
WarnerMedia							
Turner	13,122	7,740	5,382	235	5,147	52	5,199
Home Box Office	6,749	4,312	2,437	102	2,335	30	2,365
Warner Bros.	14,358	11,816	2,542	162	2,380	(30)	2,350
Eliminations and other	1,030	304	726	90	636	109	745
Total WarnerMedia	35,259	24,172	11,087	589	10,498	161	10,659
Latin America							
Vrio	4,094	3,378	716	660	56	27	83
Mexico	2,869	3,085	(216)	502	(718)	—	(718)
Total Latin America	6,963	6,463	500	1,162	(662)	27	(635)
Segment Total	184,581	122,435	62,146	20,080	42,066	\$188	\$42,254
Corporate and Other							
Corporate ¹	1,937	3,279	(1,342)	636	(1,978)		
Acquisition-related items	(72)	960	(1,032)	7,460	(8,492)		
Certain significant items	—	2,082	(2,082)	43	(2,125)		
Eliminations and consolidations	(5,253)	(3,735)	(1,518)	(2)	(1,516)		
AT&T Inc.	\$181,193	\$125,021	\$56,172	\$28,217	\$27,955		

¹ Includes \$1,934 for the reclassification of prior service credit amortization.

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	\$ 70,521	\$ 40,690	\$29,831	\$ 8,263	\$21,568	\$ —	\$21,568
Video	33,363	29,334	4,029	2,698	1,331	—	1,331
Broadband	13,108	7,116	5,992	2,623	3,369	—	3,369
Business Wireline	26,729	16,181	10,548	4,708	5,840	—	5,840
Total Communications	143,721	93,321	50,400	18,292	32,108	—	32,108
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
Eliminations and other	1,305	168	1,137	28	1,109	(30)	1,079
Total WarnerMedia	20,585	13,279	7,306	311	6,995	25	7,020
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)
Segment Total	171,958	113,758	58,200	19,841	38,359	\$ 59	\$38,418
Corporate and Other							
Corporate ¹	2,246	2,335	(89)	1,633	(1,722)		
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		

¹ Includes \$1,753 for the reclassification of prior service credit amortization.

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

	2020	2019	2018
Communications	\$ 30,521	\$32,230	\$32,108
WarnerMedia	8,210	10,659	7,020
Latin America	(729)	(635)	(710)
Segment Contribution	38,002	42,254	38,418
Reconciling Items:			
Corporate and Other	(2,342)	(1,978)	(1,722)
Merger and integration items	(468)	(1,032)	(1,234)
Amortization of intangibles acquired	(8,012)	(7,460)	(6,931)
Impairments and abandonments	(18,880)	(1,458)	(46)
Gain on spectrum transaction ¹	900	—	—
Employee separation charges and benefit-related (gain) loss	(1,177)	(624)	(587)
Other noncash charges (credits), net	(13)	(43)	(111)
Natural disaster items	—	—	(181)
Segment equity in net income of affiliates	(42)	(188)	(59)
Eliminations and consolidations	(1,563)	(1,516)	(1,451)
AT&T Operating Income	6,405	27,955	26,096
Interest Expense	7,925	8,422	7,957
Equity in net income (loss) of affiliates	95	6	(48)
Other income (expense) – net	(1,431)	(1,071)	6,782
Income (Loss) Before Income Taxes	\$ (2,856)	\$18,468	\$24,873

¹ Included as a reduction of “Selling, general and administrative expenses” in the consolidated statements of income.

Notes to Consolidated Financial Statements (continued)

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:

	2020		2019		2018	
	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment
United States	\$155,899	\$121,208	\$161,689	\$122,567	\$154,795	\$123,457
Europe	5,387	1,152	6,536	1,854	4,073	1,634
Mexico	2,862	3,530	3,198	3,648	3,100	3,467
Brazil	1,807	694	2,797	1,057	2,724	1,213
All other Latin America	2,679	485	3,219	544	3,055	1,217
Asia/Pacific Rim	2,322	203	2,793	390	2,214	408
Other	804	43	961	68	795	77
Total	\$171,760	\$127,315	\$181,193	\$130,128	\$170,756	\$131,473

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

Intersegment Reconciliation

	2020	2019	2018
Intersegment revenues			
Communications	\$ 11	\$ 26	\$ 13
WarnerMedia	3,183	3,318	1,875
Latin America	—	—	—
Total Intersegment Revenues	3,194	3,344	1,888
Consolidations	1,986	1,909	1,511
Eliminations and consolidations	\$5,180	\$5,253	\$3,399

At or for the years ended December 31,	2020			2019		
	Assets	Investments In Equity Method Investees	Capital Expenditures	Assets	Investments In Equity Method Investees	Capital Expenditures
Communications	\$ 522,758	\$ —	\$14,107	\$ 521,252	\$ —	\$17,410
WarnerMedia	150,947	1,123	699	143,492	3,011	1,205
Latin America	15,811	590	708	20,606	650	757
Corporate and eliminations	(163,755)	67	161	(133,681)	34	263
Total	\$ 525,761	\$1,780	\$15,675	\$ 551,669	\$3,695	\$19,635

NOTE 5. REVENUE RECOGNITION

We report our revenues net of sales taxes and record certain regulatory fees, primarily Universal Service Fund (USF) fees, on a net basis. No customer accounted for more than 10% of consolidated revenues in 2020, 2019 or 2018.

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, facilitates 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 separate performance obligation (e.g., equipment associated with certain video services), we allocate the total transaction price to the related service. When equipment is a separate 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 stand-alone 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. Stand-alone selling prices are determined by assessing prices paid for service-only contracts (e.g., arrangements where customers bring their own devices) and stand-alone 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 stand-alone 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 relationship 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 streaming 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

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

the distribution of television programming through broadcast networks, cable networks, first-run syndication and streaming 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.

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 tables set forth reported revenue by category and by business unit. Intercompany transactions between segments and the dual reporting of certain advertising revenues are included in "Eliminations and consolidations." Intercompany transactions between Turner, Home Box Office and Warner Bros., including internal sales to HBO Max that began in the fourth quarter of 2019, are included in "Eliminations and Other."

For the year ended December 31, 2020

	Service Revenues								Total
	Wireless	Advanced Data	Legacy Voice & Data	Subscription	Content	Advertising	Other	Equipment	
Communications									
Mobility	\$55,251	\$ —	\$ —	\$ —	\$ —	\$ 291	\$ —	\$17,022	\$ 72,564
Video	—	—	—	26,747	—	1,718	—	145	28,610
Broadband	—	8,534	2,213	—	—	—	1,564	7	12,318
Business Wireline	—	13,330	8,183	—	—	—	3,075	770	25,358
WarnerMedia									
Turner	—	—	—	7,613	759	3,941	255	—	12,568
Home Box Office	—	—	—	6,090	692	—	26	—	6,808
Warner Bros.	—	—	—	50	11,632	6	466	—	12,154
Eliminations and Other ¹	—	—	—	12	(3,264)	2,178	(14)	—	(1,088)
Latin America									
Vrio	—	—	—	3,154	—	—	—	—	3,154
Mexico	1,656	—	—	—	—	—	—	906	2,562
Corporate and Other	528	46	554	—	—	—	661	143	1,932
Eliminations and consolidations ²	—	—	—	(3,110)	—	(1,718)	(352)	—	(5,180)
Total Operating Revenues	\$57,435	\$21,910	\$10,950	\$40,556	\$ 9,819	\$ 6,416	\$5,681	\$18,993	\$171,760

¹ Eliminations and other of \$3,264 include Warner Bros. content sales of approximately \$2,250 with HBO Max, \$600 with HBO linear and \$300 with Turner.

² Eliminations and consolidations of \$3,110 include approximately \$1,500 and \$950 of Turner and HBO linear channel distribution arrangements with the Video business unit, respectively. HBO customer subscriptions were approximately \$290 with Video and \$180 with Broadband.

For the year ended December 31, 2019

	Service Revenues								Total
	Wireless	Advanced Data	Legacy Voice & Data	Subscription	Content	Advertising	Other	Equipment	
Communications									
Mobility	\$55,039	\$ —	\$ —	\$ —	\$ —	\$ 292	\$ —	\$15,725	\$ 71,056
Video	—	—	—	30,451	—	1,672	—	1	32,124
Broadband	—	8,403	2,573	—	—	—	2,029	7	13,012
Business Wireline	—	12,916	9,180	—	—	—	3,286	785	26,167
WarnerMedia									
Turner	—	—	—	7,736	481	4,566	339	—	13,122
Home Box Office	—	—	—	5,814	925	—	10	—	6,749
Warner Bros.	—	—	—	88	13,532	41	697	—	14,358
Eliminations and Other ¹	—	—	—	13	(1,058)	2,071	4	—	1,030
Latin America									
Vrio	—	—	—	4,094	—	—	—	—	4,094
Mexico	1,863	—	—	—	—	—	—	1,006	2,869
Corporate and Other	628	59	565	—	—	—	443	170	1,865
Eliminations and consolidations ²	—	—	—	(3,249)	—	(1,672)	(332)	—	(5,253)
Total Operating Revenues	\$57,530	\$21,378	\$12,318	\$44,947	\$13,880	\$ 6,970	\$6,476	\$17,694	\$181,193

¹ Eliminations and other of \$1,058 include Warner Bros. content sales of approximately \$500 with HBO linear and \$350 with Turner.

² Eliminations and consolidations of \$3,249 include approximately \$1,740 and \$1,320 of Turner and HBO linear channel distribution arrangements with the Video business unit, respectively.

For the year ended December 31, 2018

	Service Revenues								Total
	Wireless	Advanced Data	Legacy Voice & Data	Subscription	Content	Advertising	Other	Equipment	
Communications									
Mobility	\$54,063	\$ —	\$ —	\$ —	\$ —	\$ 232	\$ —	\$16,226	\$ 70,521
Video	—	—	—	31,768	—	1,595	—	—	33,363
Broadband	—	7,956	3,042	—	—	—	2,101	9	13,108
Business Wireline	—	12,234	10,674	—	—	—	2,998	823	26,729
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 ¹	—	—	—	6	(518)	1,807	10	—	1,305
Latin America									
Vrio	—	—	—	4,784	—	—	—	—	4,784
Mexico	1,701	—	—	—	—	—	—	1,167	2,868
Corporate and Other	718	160	288	—	—	—	845	186	2,197
Eliminations and consolidations ²	—	—	—	(1,843)	—	(1,595)	39	—	(3,399)
Total Operating Revenues	\$56,482	\$20,350	\$14,004	\$42,170	\$8,384	\$ 4,422	\$6,533	\$18,411	\$170,756

¹ Eliminations and other of \$518 include Warner Bros. content sales of approximately \$225 with HBO linear and \$225 with Turner.

² Eliminations and consolidations of \$1,843 include approximately \$1,000 and \$700 of Turner and HBO linear channel distribution arrangements with the Video business unit, respectively.

Deferred Customer Contract Acquisition and Fulfillment Costs

Costs to acquire and fulfill customer contracts, including commissions on service activations, for our wireless, business wireline and video services, are deferred and amortized over

the contract period or expected customer relationship life, which typically ranges from three years to five years. For contracts with an estimated amortization period of less than one year, we expense incremental costs immediately.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following table presents the deferred customer contract acquisition and fulfillment costs included on our consolidated balance sheets at December 31:

Consolidated Balance Sheets	2020	2019
Deferred Acquisition Costs		
Other current assets	\$3,087	\$ 2,462
Other Assets	3,198	2,991
Total deferred customer contract acquisition costs	\$6,285	\$ 5,453
Deferred Fulfillment Costs		
Other current assets	\$4,118	\$ 4,519
Other Assets	5,634	6,439
Total deferred customer contract fulfillment costs	\$9,752	\$10,958

The following table presents amortization of deferred customer contract acquisition and fulfillment costs, which are recorded in other cost of revenues in our consolidated statements of income, for the year ended December 31:

Consolidated Statements of Income	2020	2019
Deferred acquisition cost amortization	\$2,755	\$ 2,174
Deferred fulfillment cost amortization	5,110	4,947

Contract Assets and Liabilities

A contract asset is recorded when revenue is recognized in advance of our right to bill and receive consideration. The contract asset will decrease as services are provided and billed. For example, when equipment 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.

When consideration is received in advance of the delivery of goods or services, a contract liability is recorded for deferred revenue. Reductions in the contract liability will be recorded as revenue as we satisfy the performance obligations.

The following table presents contract assets and liabilities on our consolidated balance sheets at December 31:

Consolidated Balance Sheets	2020	2019
Contract assets	\$3,501	\$2,472
Contract liabilities	6,879	6,999

Our beginning of period contract liabilities recorded as customer contract revenue during 2020 was \$5,579.

Our consolidated balance sheets at December 31, 2020 and 2019 included approximately \$2,054 and \$1,611, respectively, for the current portion of our contract assets in “Other current assets” and \$6,071 and \$5,939, respectively, for the current portion of our contract liabilities 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.

Remaining performance obligations associated with business contracts reflect recurring charges billed, adjusted to reflect estimates for sales incentives and revenue adjustments. Performance obligations associated with wireless contracts are estimated using a portfolio approach in which we review all relevant promotional activities, calculating the remaining performance obligation using the average service component for the portfolio and the average device price.

As of December 31, 2020, the aggregate amount of the transaction price allocated to remaining performance obligations was \$42,072, of which we expect to recognize approximately 60% by the end of 2021, with the remaining balance recognized thereafter.

NOTE 6. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

HBO Latin America Group (HBO LAG) In May 2020, we acquired the remaining interest in HBO LAG for \$141, net of cash acquired. At acquisition, we remeasured the fair value of the total business, which exceeded the carrying amount of our equity method investment and resulted in a pre-tax gain of \$68. We consolidated that business upon close and recorded those assets at fair value, including \$640 of trade names, \$271 of distribution networks and \$346 of goodwill that is reported in the WarnerMedia segment. These estimates are preliminary in nature and subject to adjustments, which will be finalized within one year from the date of acquisition.

Time Warner In June 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. For accounting purposes, the transaction was valued at \$79,358. Our consolidated balance sheets include the assets and liabilities of Time Warner, which were measured at fair value.

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 Common Stock	\$ 2.86	\$ 4.30
Diluted Earnings Per Share		
Attributable to Common Stock	\$ 2.85	\$ 4.26

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 of 2018. At acquisition, we remeasured the fair value of the total business, which exceeded the carrying amount 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 WarnerMedia segment. Our investment allows us to create a marketplace for TV and digital video advertising.

Spectrum Auctions In June 2020, we completed the acquisition of \$2,379 of 37/39 GHz spectrum in a Federal Communications Commission (FCC) auction. Prior to the auction, we exchanged the 39 GHz licenses with a book value of approximately \$300 that were previously acquired through FiberTower Corporation for vouchers to be applied against the winning bids and recorded a \$900 gain in the first quarter of 2020. These vouchers yielded a value of approximately \$1,200, which was applied toward our gross bids. In the second quarter of 2020, we made the final cash payment of \$949, bringing the total cash payment to \$1,186.

In December 2019, we acquired \$982 of 24 GHz spectrum in an FCC auction.

Dispositions

Central European Media Enterprises Ltd. (CME) On October 13, 2020, we completed the sale of our 65.3% interest in CME, a European broadcasting company, for approximately \$1,100 and recorded a pre-tax gain of \$39. Upon close, we received relief from a debt guarantee originally covering approximately \$1,100 that was reduced to \$600 at the time of the sale.

Operations in Puerto Rico On October 31, 2020, we completed the sale of our previously held-for-sale wireless and wireline operations in Puerto Rico and the U.S.

Virgin Islands for approximately \$1,950 and recorded a pre-tax loss of \$82. Upon sale we removed held-for-sale assets ("Other current assets") and held-for-sale liabilities ("Accounts payable and accrued liabilities") that primarily consisted of FCC licenses (approximately \$1,100), allocated goodwill (approximately \$250), net property, plant and equipment (approximately \$850) and net tax liabilities (approximately \$500), previously reported on our consolidated balance sheets. The proceeds were used to redeem \$1,950 of cumulative preferred interests in a subsidiary that held notes secured by the proceeds of this sale.

Hudson Yards In June 2019, we sold our ownership in Hudson Yards North Tower Holdings LLC under a sale-leaseback arrangement for cash proceeds of \$2,081 and recorded a loss of approximately \$100 resulting from transaction costs (primarily real estate transfer taxes).

Hulu In April 2019, we sold our ownership in Hulu for cash proceeds of \$1,430 and recorded a pre-tax gain of \$740.

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.

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

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

	Lives (years)	2020	2019
Land	—	\$ 2,571	\$ 2,651
Buildings and improvements	2-44	39,418	38,924
Central office equipment ¹	3-10	95,981	96,061
Cable, wiring and conduit	15-50	75,409	72,042
Satellites	14-17	908	2,489
Other equipment	3-20	90,883	94,951
Software	3-7	18,482	22,244
Under construction	—	4,099	4,176
		327,751	333,538
Accumulated depreciation and amortization		200,436	203,410
Property, plant and equipment – net		\$127,315	\$130,128

¹ Includes certain network software.

Our depreciation expense was \$20,277 in 2020, \$20,285 in 2019 and \$20,083 in 2018. Depreciation expense included amortization of software totaling \$3,483 in 2020, \$3,313 in 2019 and \$3,092 in 2018.

In December 2020, we reassessed our grouping of long-lived assets and identified certain impairment indicators, requiring us to evaluate the recoverability of the long-lived assets of our video business. Based on this evaluation, we determined that these assets were not fully recoverable and recognized

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

pre-tax impairment charges totaling \$7,255, of which \$1,681 relates to property, plant and equipment, including satellites. The reduced carrying amounts of the impaired assets became their new cost basis.

In 2019, we recorded a noncash pre-tax charge of \$1,290 to abandon copper assets that we no longer expect will be utilized to support future network activity. The abandonment was considered outside the ordinary course of business.

NOTE 8. LEASES

We have operating and finance leases for certain facilities and equipment used in our operations. Our leases generally have remaining lease terms of up to 15 years. Some of our real estate operating leases contain renewal options that may be exercised, and some of our leases include options to terminate the leases within one year.

We have recognized a right-of-use asset for both operating and finance leases, and a corresponding lease liability that represents the present value of our obligation to make payments over the lease term. The present value of the lease payments is calculated using the incremental borrowing rate for operating and finance leases, which was determined using a portfolio approach based on the rate of interest that we would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term. We use the unsecured borrowing rate and risk-adjust that rate to approximate a collateralized rate in the currency of the lease, which will be updated on a quarterly basis for measurement of new lease liabilities.

The components of lease expense were as follows:

	2020	2019
Operating lease cost	\$5,896	\$5,684
Finance lease cost:		
Amortization of right-of-use assets	\$ 287	\$ 271
Interest on lease obligation	156	169
Total finance lease cost	\$ 443	\$ 440

The following table provides supplemental cash flows information related to leases:

	2020	2019
Cash Flows from Operating Activities		
Cash paid for amounts included in lease obligations:		
Operating cash flows from operating leases	\$4,852	\$4,583
Supplemental Lease Cash Flow Disclosures		
Operating lease right-of-use assets obtained in exchange for new operating lease obligations	\$5,270	\$7,818

The following tables set forth supplemental balance sheet information related to leases at December 31:

	2020	2019
Operating Leases		
Operating lease right-of-use assets	\$24,714	\$24,039
Accounts payable and accrued liabilities	\$ 3,537	\$ 3,451
Operating lease obligation	22,202	21,804
Total operating lease obligation	\$25,739	\$25,255

Finance Leases		
Property, plant and equipment, at cost	\$ 3,586	\$ 3,534
Accumulated depreciation and amortization	(1,361)	(1,296)
Property, plant and equipment, net	\$ 2,225	\$ 2,238
Current portion of long-term debt	\$ 189	\$ 162
Long-term debt	1,847	1,872
Total finance lease obligation	\$ 2,036	\$ 2,034

	2020	2019
Weighted-Average Remaining Lease Term (years)		
Operating leases	8.5	8.4
Finance leases	9.9	10.3
Weighted-Average Discount Rate		
Operating leases	4.1%	4.2%
Finance leases	8.1%	8.4%

The following table provides the expected future minimum maturities of lease obligations:

	Operating Leases	Finance Leases
2021	\$ 4,808	\$ 350
2022	4,527	333
2023	4,094	300
2024	3,560	276
2025	2,904	272
Thereafter	11,230	1,609
Total lease payments	31,123	3,140
Less: imputed interest	(5,384)	(1,104)
Total	\$25,739	\$ 2,036

NOTE 9. GOODWILL AND OTHER INTANGIBLE ASSETS

We test goodwill for impairment at a reporting unit level, which is deemed to be our principal operating segments or one level below. With our annual impairment testing as of October 1, 2020, the calculated fair values of the reporting units exceeded their book values in all circumstances; however, the Turner, HBO and Entertainment Group (prior to the reporting unit change) fair values exceeded their

book values by less than 10%, with COVID-19 impacts, industry trends and our content distribution strategy affecting fair value.

In December 2020, we changed our management strategy and reevaluated our domestic video business, allowing us to maximize value in our domestic video business and further accelerate our ability to innovate and execute in our fast-growing broadband and fiber business. The strategy change required us to reassess the grouping and recoverability of the video business long-lived assets. In conjunction with the strategy change, we separated the former Entertainment Group reporting unit into two reporting units, Video and Broadband, which includes legacy telephony operations. Our recoverability assessment resulted in \$7,255 of long-lived asset impairment in the video business, including \$4,373 for orbital slots and \$1,201 for customer lists. The change in reporting unit required the historical Entertainment Group goodwill to be assigned to the separate Video and Broadband reporting units, for which we used the relative fair value allocation methodology. The affected reporting units were then tested for goodwill impairment. We recorded an impairment of the entire \$8,253 of goodwill allocated to the Video reporting unit. No goodwill impairment was required in the Broadband reporting unit.

In the second quarter of 2020, driven by significant and adverse economic and political environments in Latin America, including the impact of COVID-19, we experienced accelerated subscriber losses and revenue decline in the

region, as well as closure of our operations in Venezuela. When combining these business trends and higher weighted-average cost of capital resulting from the increase in country-risk premiums in the region, we concluded that it was more likely than not that the fair value of the Vrio reporting unit, estimated using discounted cash flow and market multiple approaches, was less than its carrying amount. We recorded a \$2,212 goodwill impairment in the Vrio reporting unit, with \$105 attributable to noncontrolling interest.

Other changes to our goodwill in 2020 resulted from foreign currency translation, the held-for-sale treatment of our Crunchyroll anime business and our acquisition of the remaining interest in HBO LAG (see Note 6). In 2020, the prior Xandr segment was combined with our WarnerMedia segment.

Changes to our goodwill in 2019 primarily resulted from the held-for-sale treatment of wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands (see Note 6) and final valuations related to our acquisitions of Time Warner and Otter Media, as well as changes from foreign currency translation.

At December 31, 2020, our Communications segment has four reporting units: Mobility, Video, Broadband and Business Wireline. Our WarnerMedia segment has four reporting units: Turner, Home Box Office, Warner Bros. and Xandr. Our Latin America segment has two reporting units: Vrio and Mexico.

The following table sets forth the changes in the carrying amounts of goodwill by operating segment:

	2020					2019				
	Balance at Jan. 1	Acquisitions	Impairments	Dispositions, currency exchange and other	Balance at Dec. 31	Balance at Jan. 1	Acquisitions	Dispositions, currency exchange and other	Balance at Dec. 31	
Communications	\$100,234	\$ —	\$ (8,253)	\$ (5)	\$ 91,976	\$100,551	\$ —	\$(317)	\$100,234	
WarnerMedia	42,345	415	—	(313)	42,447	42,101	66	178	42,345	
Latin America	3,662	—	(2,212)	(614)	836	3,718	—	(56)	3,662	
Total	\$146,241	\$415	\$(10,465)	\$(932)	\$135,259	\$146,370	\$66	\$(195)	\$146,241	

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, including the video business previously discussed. In 2020, we changed the estimated lives of our orbital slot licenses from indefinite to finite-lived and began amortizing them over their average remaining economic life of 15 years (see Note 1).

Notes to Consolidated Financial Statements (continued)

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

	2020				2019		
	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Currency Translation Adjustment	Gross Carrying Amount	Accumulated Amortization	Currency Translation Adjustment
Other Intangible Assets							
Amortized intangible assets:							
Wireless licenses ¹	24.6 years	\$ 2,979	\$ 271	\$ (421)	\$ 2,981	\$ 156	\$(243)
Orbital slots ²	15.0 years	5,825	—	—	—	—	—
Trademarks and trade names	37.1 years	20,016	1,518	(442)	18,359	853	(6)
Distribution network	10.0 years	18,414	4,621	—	18,138	2,793	—
Released television and film content	17.5 years	10,940	6,240	—	10,941	4,974	—
Customer lists and relationships	9.3 years	4,100	1,645	(460)	20,304	14,773	(281)
Other	21.3 years	11,311	2,615	(5)	11,427	1,843	(3)
Total	22.3 years	\$ 73,585	\$16,910	\$(1,328)	\$ 82,150	\$25,392	\$(533)

¹ Includes \$1,561 of wireless license renewals in Mexico in 2019.

² Changed from indefinite-lived January 1, 2020.

Indefinite-lived intangible assets not subject to amortization, net of currency translation adjustment:

Licenses:		
Wireless licenses	\$ 85,728	\$ 83,623
Orbital slots ¹	—	11,702
Trade names	5,241	6,067
Total	\$ 90,969	\$101,392

¹ Changed to amortized January 1, 2020.

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 \$8,239 for the year ended December 31, 2020, \$7,932 for the year ended December 31, 2019 and \$8,347 for the year ended December 31, 2018. Amortization expense is estimated to be \$5,987 in 2021, \$5,363 in 2022, \$4,846 in 2023, \$4,302 in 2024 and \$4,046 in 2025.

NOTE 10. 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 May 2020, we acquired the remaining interest in HBO LAG and fully consolidated that entity. In October 2020, we sold our ownership interest in CME. (See Note 6)

In 2019, we sold our investments in Hudson Yards and Hulu. (See Note 6)

In 2018, we acquired Time Warner, which included various equity method investments. The difference between the fair values and the proportional carrying amounts of those investments' net assets primarily related to investments in CME (sold in 2020) and HBO LAG (consolidated in 2020). (See Note 6)

Our investments in equity affiliates at December 31, 2020 primarily include our interests in SKY Mexico and The CW Network.

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

The CW Network (The CW) We hold a 50.0% interest in The CW, which is an advertising supported broadcasting and licensing joint venture between Warner Bros. and CBS Corporation.

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

	2020	2019
Beginning of year	\$ 3,695	\$ 6,245
Additional investments	178	448
Acquisition of remaining interest in HBO LAG	(1,141)	—
Disposition of CME	(749)	—
Disposition of Hudson Yards	—	(1,681)
Disposition of Hulu	—	(689)
Disposition of Game Show Network	—	(288)
Equity in net income (loss) of affiliates	95	6
Dividends and distributions received	(133)	(301)
Currency translation adjustments	(10)	(10)
Impairments	(146)	—
Other adjustments	(9)	(35)
End of year	\$ 1,780	\$ 3,695

NOTE 11. 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. As of January 1, 2019, we reclassified \$2,274 of our programming inventory costs from "Other current assets" to "Other Assets" in connection with the adoption of ASU 2019-2 (see Note 1).

In the fourth quarter of 2020, we recognized an impairment of \$524 based on a change in these estimates for various film titles. This change in estimates was driven by the continued shutdown of theaters during the pandemic, including the resurgence of an outbreak in the fourth quarter and the impact of our decision to release our 2021 movies in theaters and on HBO Max at the same time.

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

	2020	2019
Inventories:		
Programming costs, less amortization ¹	\$ 6,010	\$ 4,151
Other inventory, primarily DVD and Blu-ray Discs	103	96
Total inventories	6,113	4,247
Less: current portion of inventory	(103)	(96)
Total noncurrent inventories	6,010	4,151
Theatrical film production costs: ²		
Released, less amortization	487	392
Completed and not released	616	437
In production	1,130	1,475
Development and pre-production	190	171
Television production costs: ²		
Released, less amortization	2,495	2,199
Completed and not released	1,381	1,344
In production	2,353	2,208
Development and pre-production	90	57
Total theatrical film and television production costs	8,742	8,283
Total noncurrent inventories and theatrical film and television production costs	\$14,752	\$12,434

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 \$4,699 and \$5,967 of acquired film and television library intangible assets as of December 31, 2020, and 2019, respectively, which are included in "Other Intangible Assets – Net" on our consolidated balance sheets.

Approximately 90% of unamortized film costs for released theatrical and television content are expected to be amortized within three years from December 31, 2020. In addition, approximately \$3,111 of the total \$5,171 film costs of released and completed and not released theatrical and television product are expected to be amortized during 2021.

NOTE 12. DEBT

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

	2020	2019	
Notes and debentures			
Interest Rates	Maturities ¹		
0.98% – 2.99%	2020 – 2039	\$ 25,549	\$ 17,404
3.00% – 4.99%	2020 – 2050	110,317	102,595
5.00% – 6.99%	2020 – 2095	24,259	34,513
7.00% – 9.15%	2020 – 2097	5,006	5,050
Credit agreement borrowings		300	4,969
Fair value of interest rate swaps recorded in debt		20	26
		165,451	164,557
Unamortized (discount) premium – net		(9,710)	(2,996)
Unamortized issuance costs		(532)	(452)
Total notes and debentures		155,209	161,109
Finance lease obligations		2,036	2,034
Total long-term debt, including current maturities		157,245	163,143
Current maturities of long-term debt		(3,470)	(11,834)
Total long-term debt		\$153,775	\$151,309

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

We had outstanding Euro, British pound sterling, Canadian dollar, Mexican peso, Australian dollar, Swiss franc and Brazilian real denominated debt of approximately \$43,399 and \$42,485 at December 31, 2020 and 2019, respectively.

The weighted-average interest rate of our entire long-term debt portfolio, including the impact of derivatives, was approximately 4.1% as of December 31, 2020 and 4.4% as of December 31, 2019.

Current maturities of long-term debt include 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.

Notes to Consolidated Financial Statements (continued)

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

	2020	2019
Current maturities of long-term debt	\$3,470	\$11,834
Bank borrowings ¹	—	4
Total	\$3,470	\$11,838

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

Financing Activities

During 2020, we received net proceeds of \$31,988 on the issuance of \$32,241 in long-term debt in various markets, with an average weighted maturity of approximately 20 years and a weighted average interest rate of 3.2%. We repaid \$39,758 in borrowings of various notes with a weighted average coupon of 3.2%.

Tender Offers and Debt Exchanges

In August 2020, we repurchased \$11,384 of AT&T global notes and subsidiary notes due 2021 to 2025 through cash tender offers.

In September 2020, we exchanged \$17,677 of AT&T and subsidiary notes, with interest rates ranging from 4.350% to 8.750% and original maturities ranging from 2031 to 2058 for \$1,459 of cash and \$21,500 of three new series of AT&T Inc. global notes, with interest rates ranging from 3.500% to 3.650% and maturities ranging from 2053 to 2059.

In December 2020, we also exchanged \$8,280 of AT&T and subsidiary notes, with interest rates ranging from 2.950% to 7.125% and original maturities ranging from 2026 to 2048 for \$8 of cash and \$9,678 of two new series of AT&T global notes, with interest rates of 2.550% and 3.800% and maturities of 2033 and 2057, respectively.

As of December 31, 2020 and 2019, 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, 2020, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2021	2022	2023	2024	2025	There-after
Debt						
repayments ¹	\$3,418	\$5,951	\$7,779	\$7,849	\$6,389	\$134,268
Weighted-average						
interest rate	3.8%	3.3%	3.4%	3.3%	3.9%	4.2%

¹ Debt repayments represent maturity value and assume putable debt is redeemed at the next opportunity. Foreign debt includes the impact from hedges, when applicable.

Credit Facilities

General

In September 2019, we entered into and drew on a \$1,300 term loan credit agreement containing (i) a 1.25 year \$400 facility due in 2020, (ii) a 2.25 year \$400 facility due in 2021, and (iii) a 3.25 year \$500 facility due in 2022, with Bank of America, N.A., as agent. These facilities were repaid and terminated in the second quarter of 2020.

In April 2020, we entered into and drew on a \$5,500 Term Loan Credit Agreement (Term Loan) with 11 commercial banks and Bank of America, N.A. as lead agent. We repaid and terminated the Term Loan in May 2020.

On January 29, 2021, we entered into a \$14,700 Term Loan Credit Agreement (Term Loan), with Bank of America, N.A., as agent. The Term Loan is available for a single draw at any time before May 29, 2021. The proceeds will be used for general corporate purposes, which may include among other things, financing acquisitions of additional spectrum. The entire principal amount of the Term Loan will be due and payable 364 days after the date on which the borrowing is made. At January 31, 2021, we had approximately \$6,100 of commercial paper outstanding.

Revolving Credit Agreements

In November 2020, we amended one of our \$7,500 revolving credit agreements by extending the termination date. In total, we have two \$7,500 revolving credit agreements, totaling \$15,000, with one terminating on December 11, 2023 and the other terminating on November 17, 2025. No amounts were outstanding under either agreement as of December 31, 2020.

Each of the credit 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.

The obligations of the lenders under two revolving credit agreements to provide advances will terminate on December 11, 2023, and November 17, 2025, 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 our 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 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.

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, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures ¹	\$155,209	\$187,224	\$161,109	\$182,124
Bank borrowings	—	—	4	4
Investment securities ²	3,249	3,249	3,723	3,723

¹ Includes credit agreement borrowings.

² Excludes investments accounted for under the equity method.

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.

NOTE 13. FAIR VALUE MEASUREMENTS AND DISCLOSURE

The Fair Value Measurement and Disclosure framework in ASC 820, "Fair Value Measurement," provides a three-tiered fair value hierarchy based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs.

The 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, 2019.

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Following is the fair value leveling for investment securities that are measured at fair value and derivatives as of December 31, 2020, and December 31, 2019. Derivatives designated as hedging instruments are reflected as "Other assets," "Other noncurrent liabilities," "Other current assets" and "Accounts payable and accrued liabilities" on our consolidated balance sheets.

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Equity Securities				
Domestic equities	\$1,010	\$ —	\$ —	\$ 1,010
International equities	180	—	—	180
Fixed income equities	236	—	—	236
Available-for-Sale Debt Securities	—	1,479	—	1,479
Asset Derivatives				
Cross-currency swaps	—	1,721	—	1,721
Foreign exchange contracts	—	6	—	6
Liability Derivatives				
Cross-currency swaps	—	(1,814)	—	(1,814)
Foreign exchange contracts	—	(9)	—	(9)

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Equity Securities				
Domestic equities	\$844	\$ —	\$ —	\$ 844
International equities	183	—	—	183
Fixed income equities	229	—	—	229
Available-for-Sale Debt Securities	—	1,444	—	1,444
Asset Derivatives				
Interest rate swaps	—	2	—	2
Cross-currency swaps	—	172	—	172
Interest rate locks	—	11	—	11
Foreign exchange contracts	—	89	—	89
Liability Derivatives				
Cross-currency swaps	—	(3,187)	—	(3,187)
Interest rate locks	—	(95)	—	(95)

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 in the period on equity securities are as follows:

For the years ended December 31,	2020	2019	2018
Total gains (losses) recognized on equity securities	\$171	\$301	\$(130)
Gains (losses) recognized on equity securities sold	(25)	100	(10)
Unrealized gains (losses) recognized on equity securities held at end of period	\$196	\$201	\$(120)

At December 31, 2020, available-for-sale debt securities totaling \$1,479 have maturities as follows – less than one year: \$29; one to three years: \$159; three to five years: \$179; five or more years: \$1,112.

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 Periodically, we enter into and designate 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.

Unrealized 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 derivatives designated as 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, 2020 and 2019, 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 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 certain forecasted film production costs and film tax incentives denominated in foreign currencies.

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, changes in fair value are reported as a component of accumulated OCI and are reclassified into the consolidated statements of income in the same period the hedged transaction affects earnings.

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. Over the next 12 months, we expect to reclassify \$92 from accumulated OCI to "Interest expense" due to the amortization of net losses on historical interest rate locks.

We settled all interest rate locks in May 2020 in conjunction with the issuance of fixed rate debt obligations that the interest rate locks were hedging and paid \$731 that was largely offset by the return of collateral at the time of settlement. Cash flows from the interest rate lock settlements and return of collateral were reported as financing activities in our statement of cash flows, consistent with our accounting policy for these instruments.

Net Investment Hedging We have designated €1,450 million aggregate principal amount of debt as a hedge of the variability of some of the Euro-denominated net investments of our subsidiaries. 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 OCI, net on the consolidated balance sheets. Net losses on net investment hedges recognized in accumulated OCI for 2020 were \$147.

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, 2020, we had posted collateral of \$53 (a deposit asset) and held collateral of \$694 (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

Notes to Consolidated Financial Statements (continued)

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December, we would have been required to post additional collateral of \$33. If AT&T's credit rating had been downgraded four ratings levels by Fitch Ratings, two levels by S&P, and two levels by Moody's, we would have been required to post additional collateral of \$676. If DIRECTV Holdings LLC's credit rating had been downgraded below BBB- by S&P, we would have been required to post additional collateral of \$134. At December 31, 2019, we had posted collateral of \$204 (a deposit asset) and held collateral of \$44 (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 at December 31:

	2020	2019
Interest rate swaps	\$ —	\$ 853
Cross-currency swaps	40,745	42,325
Interest rate locks	—	3,500
Foreign exchange contracts	90	269
Total	\$40,835	\$46,947

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,	2020	2019	2018
Interest rate swaps (Interest expense):			
Gain (Loss) on interest rate swaps	\$(6)	\$ 58	\$(12)
Gain (Loss) on long-term debt	6	(58)	12

In addition, the net swap settlements that accrued and settled in the periods above were offset against "Interest expense."

Cash Flow Hedging Relationships For the years ended December 31,	2020	2019	2018
Cross-currency swaps:			
Gain (Loss) recognized in accumulated OCI	\$(378)	\$(1,066)	\$(825)
Foreign exchange contracts:			
Gain (Loss) recognized in accumulated OCI	3	10	51
Other income (expense) – net reclassified from accumulated OCI into income	(3)	6	39
Interest rate locks:			
Gain (Loss) recognized in accumulated OCI	(648)	(84)	—
Interest income (expense) reclassified from accumulated OCI into income	(84)	(63)	(58)

Nonrecurring Fair Value Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, impairment indicators may subject goodwill, long-lived assets and film costs to nonrecurring fair value measurements. The implied fair values of the video and Vrio businesses were estimated using both the discounted cash flow as well as market multiple approaches. The fair values of long-lived assets in the video business were determined using a present value approach of probability-weighted expected cash flows. The fair values of film productions were estimated using a discounted cash flow approach. The inputs to all of these approaches are considered Level 3.

Goodwill amounts related to the Video and Vrio reporting units were fully impaired. At December 31, 2020, nonrecurring fair value measurements in our Video business unit totaled \$9,744 and were comprised of \$5,873 for orbital slots, \$1,613 for customer lists and \$2,258 for property, plant and equipment (see Notes 7 and 9). Nonrecurring fair value measurements for film costs within our Warner Bros. business unit totaled \$844 (see Note 11). There were no nonrecurring fair value measurements at December 31, 2019.

NOTE 14. INCOME TAXES

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

	2020	2019
Depreciation and amortization	\$46,952	\$44,896
Licenses and nonamortizable intangibles	13,930	17,355
Employee benefits	(5,279)	(5,143)
Deferred fulfillment costs	2,691	3,050
Net operating loss and other carryforwards	(7,355)	(7,301)
Other – net	4,562	1,536
Subtotal	55,501	54,393
Deferred tax assets valuation allowance	4,773	4,941
Net deferred tax liabilities	\$60,274	\$59,334
Noncurrent deferred tax liabilities	\$60,472	\$59,502
Less: Noncurrent deferred tax assets	(198)	(168)
Net deferred tax liabilities	\$60,274	\$59,334

At December 31, 2020, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of \$585, state of \$916 and foreign of \$2,763, expiring through 2040. Additionally, we had federal credit carryforwards of \$1,080 and state credit carryforwards of \$2,011, expiring primarily through 2040.

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, 2020 and 2019 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. The Company considers other types of unremitted foreign earnings to be indefinitely reinvested. 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 2020 and 2019 is as follows:

Federal, State and Foreign Tax	2020	2019
Balance at beginning of year	\$10,979	\$10,358
Increases for tax positions related to the current year	1,580	903
Increases for tax positions related to prior years	112	1,106
Decreases for tax positions related to prior years	(994)	(1,283)
Lapse of statute of limitations	(24)	(32)
Settlements	(1,646)	(283)
Current year acquisitions	—	205
Foreign currency effects	(6)	5
Balance at end of year	10,001	10,979
Accrued interest and penalties	2,450	2,708
Gross unrecognized income tax benefits	12,451	13,687
Less: Deferred federal and state income tax benefits	(878)	(886)
Less: Tax attributable to timing items included above	(3,588)	(4,320)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	\$ 7,985	\$ 8,481

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 \$702 at December 31, 2020 and \$2,584 at December 31, 2019.

Accrued interest and penalties included in UTBs were \$2,450 as of December 31, 2020, and \$2,708 as of December 31, 2019. 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 \$149 for 2020, \$267 for 2019 and \$1,290 for 2018.

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 2012. All audit periods prior to 2005 are closed for federal examination purposes and we have effectively resolved all outstanding audit issues for years through 2010 with the IRS Appeals Division. Those years will be closed as the final paperwork is processed in the coming months.

While we do not expect material changes, we are generally unable to estimate the range of impacts on the balance of the remaining uncertain tax positions or the impact on the effective tax rate from the resolution of these issues until each year is closed; 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:

	2020	2019	2018
Federal:			
Current	\$ (687)	\$ 584	\$3,258
Deferred	1,039	1,656	277
	352	2,240	3,535
State and local:			
Current	(6)	603	513
Deferred	263	144	473
	257	747	986
Foreign:			
Current	413	605	539
Deferred	(57)	(99)	(140)
	356	506	399
Total	\$ 965	\$3,493	\$4,920

Notes to Consolidated Financial Statements (continued)

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

	2020	2019	2018
U.S. income (loss) before income taxes	\$ (452)	\$18,301	\$25,379
Foreign income (loss) before income taxes	(2,404)	167	(506)
Total	\$ (2,856)	\$18,468	\$24,873

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

	2020	2019	2018
Taxes computed at federal statutory rate	\$ (600)	\$3,878	\$5,223
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	193	611	738
Enactment date and measurement period adjustments from the Act	—	—	(718)
Tax on foreign investments	(141)	(115)	(466)
Noncontrolling interest	(285)	(230)	(121)
Permanent items and R&D credit	(239)	(285)	(189)
Audit resolutions	(112)	(156)	544
Divestitures	107	—	—
Goodwill impairment ¹	2,120	—	—
Other – net	(78)	(210)	(91)
Total	\$ 965	\$3,493	\$4,920
Effective Tax Rate	(33.8)%	18.9%	19.8%

¹ Goodwill impairments are not deductible for tax purposes.

NOTE 15. 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.

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. At acquisition, the plans were already closed to new entrants and frozen for new accruals.

During the fourth quarter of 2020, we committed to, and reflected in our results, plan changes impacting retiree life and death coverage and health and medical subsidy benefits. Changes were also communicated that impact future pension accruals for certain management employees. These plan changes align our benefit plans to, or above market level.

In 2019, for certain management participants in our pension plan who terminated employment before April 1, 2019, we offered the option of more favorable 2018 interest rates and mortality basis for determining lump-sum distributions. We recorded special termination benefits of \$81 associated with this offer in "Other income (expense) – net." We also offered certain terminated vested pension plan participants the opportunity to receive their benefit as a lump sum.

During the fourth quarter of 2019, we committed to plan changes impacting the cost of postretirement health and welfare benefits, which were reflected in our results. Future retirees will not receive health retirement subsidies toward post-Medicare coverage but have access to a new cost-efficient comprehensive plan.

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 plans to employee service.

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

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Benefit obligation at beginning of year	\$59,873	\$55,439	\$16,041	\$19,378
Service cost – benefits earned during the period	1,029	1,019	53	71
Interest cost on projected benefit obligation	1,687	1,960	416	675
Amendments	(340)	—	(2,655)	(4,590)
Actuarial (gain) loss	5,054	7,734	1,423	2,050
Special termination benefits	—	81	—	—
Benefits paid	(5,124)	(6,356)	(1,370)	(1,543)
Curtailment	(1)	—	—	—
Plan transfers	(20)	(4)	20	—
Benefit obligation at end of year	\$62,158	\$59,873	\$13,928	\$16,041

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	
	2020	2019	2020	2019
Fair value of plan assets at beginning of year	\$53,530	\$51,681	\$ 4,145	\$ 4,277
Actual return on plan assets	6,199	8,207	302	609
Benefits paid ¹	(5,124)	(6,356)	(1,029)	(941)
Contributions	2	2	425	200
Plan transfers	(1)	(4)	—	—
Fair value of plan assets at end of year	54,606	53,530	3,843	4,145
Unfunded status at end of year ²	\$ (7,552)	\$ (6,343)	\$ (10,085)	\$ (11,896)

¹ At our discretion, certain postretirement benefits may be paid from our 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.

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

	Pension Benefits		Postretirement Benefits	
	2020	2019	2020	2019
Current portion of employee benefit obligation ¹	\$ —	\$ —	\$ (1,213)	\$ (1,365)
Employee benefit obligation ²	(7,552)	(6,343)	(8,872)	(10,531)
Net amount recognized	\$ (7,552)	\$(6,343)	\$ (10,085)	\$(11,896)

¹ Included in "Accounts payable and accrued liabilities."

² Included in "Postemployment benefit obligation," combined with international pension obligations and other postemployment obligations of \$553 and \$1,299 at December 31, 2020, respectively.

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 \$60,848 at December 31, 2020, and \$58,150 at December 31, 2019.

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

Periodic Benefit Costs

The service cost component of net periodic pension cost (benefit) is recorded in operating expenses in the consolidated statements of income while the remaining components are recorded in "Other income (expense) – net." Our combined net pension and postretirement cost (credit) recognized in our consolidated statements of income was \$711, \$2,762 and \$(4,251) for the years ended December 31, 2020, 2019 and 2018.

Notes to Consolidated Financial Statements (continued)

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The following table presents the components of net periodic benefit cost (credit):

	Pension Benefits ¹			Postretirement Benefits		
	2020	2019	2018	2020	2019	2018
Service cost – benefits earned during the period	\$ 1,029	\$ 1,019	\$ 1,116	\$ 53	\$ 71	\$ 109
Interest cost on projected benefit obligation	1,687	1,960	2,092	416	675	778
Expected return on assets	(3,557)	(3,561)	(3,190)	(178)	(227)	(304)
Amortization of prior service credit	(113)	(113)	(115)	(2,329)	(1,820)	(1,635)
Actuarial (gain) loss	2,404	3,088	(812)	1,299	1,670	(2,290)
Net pension and postretirement cost (credit)	\$ 1,450	\$ 2,393	\$ (909)	\$ (739)	\$ 369	\$ (3,342)

¹ Net periodic pension cost (credit) excludes immediate cost recognized due to special events: curtailment gain of (\$1) in 2020 and special termination benefits of \$81 in 2019.

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		
	2020	2019	2018	2020	2019	2018
Balance at beginning of year	\$361	\$447	\$ 571	\$ 8,171	\$ 6,086	\$ 6,456
Prior service (cost) credit	250	—	(37)	2,001	3,457	864
Amortization of prior service credit	(86)	(86)	(87)	(1,756)	(1,372)	(1,234)
Total recognized in other comprehensive (income) loss	164	(86)	(124)	245	2,085	(370)
Balance at end of year	\$525	\$361	\$ 447	\$ 8,416	\$ 8,171	\$ 6,086

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		
	2020	2019	2018	2020	2019	2018
Weighted-average discount rate for determining benefit obligation at December 31	2.70%	3.40%	4.50%	2.40%	3.20%	4.40%
Discount rate in effect for determining service cost ^{1,2}	3.60%	4.10%	4.20%	3.50%	4.40%	4.30%
Discount rate in effect for determining interest cost ^{1,2}	2.90%	3.50%	3.80%	2.70%	3.70%	3.60%
Weighted-average interest credit rate for cash balance pension programs ³	3.10%	3.30%	3.70%	—%	—%	—%
Long-term rate of return on plan	7.00%	7.00%	7.00%	4.75%	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%	3.00%	3.00%	3.00%	3.00%

¹ Weighted-average discount rate for pension benefits in effect from January 1, 2019 through March 31, 2019 was 4.60% for service cost and 4.20% for interest cost, from April 1, 2019 through June 30, 2019 was 4.30% for service cost and 3.70% for interest cost, from July 1, 2019 through September 30, 2019 was 3.90% for service cost and 3.20% for interest cost, and, from October 1, 2019 through December 31, 2019 was 3.50% for service cost and 3.00% for interest cost.

² Weighted-average discount rate for postretirement benefits in effect from January 1, 2019 through October 1, 2019 was 4.70% for service cost and 4.00% for interest cost, and, from October 2, 2019 through December 31, 2019 was 3.40% for service cost and 2.70% 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 "Other income (expense) – net" in our consolidated statements of income. These gains and losses are generally measured annually as of December 31 and accordingly, will normally be recorded during the fourth quarter, unless an earlier remeasurement is required. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years.

Discount Rate Our assumed weighted-average discount rate for pension and postretirement benefits of 2.70% and 2.40% respectively, at December 31, 2020, 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, 2020, when compared to the year ended December 31, 2019, we decreased our pension discount rate by 0.70%, resulting in an increase in our pension plan benefit obligation of \$5,594 and decreased our postretirement discount rate by 0.80%, resulting in an increase in our postretirement benefit obligation of \$1,311. For the year ended December 31, 2019, we decreased our pension discount rate by 1.10%, resulting in an increase in our pension plan benefit obligation of \$8,018 and decreased our postretirement discount rates by 1.20%, resulting in an increase in our postretirement benefit obligation of \$2,399.

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 2021, our expected long-term rate of return is 6.75% on pension plan assets and 4.50% on postretirement plan assets. Our expected long-term rates of return on plan assets were adjusted downward by 0.25% for 2021, with pension reducing from 7.00% to 6.75% and postretirement from 4.75% to 4.50%. This update to our asset return assumptions was due to economic forecasts, a change in the asset mix, and holding more fixed income securities in the pension plan and more cash and short-term securities in our VEBA trusts. 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 2021 combined pension and postretirement cost to increase \$277. 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 2020 and 2019 reflects the long-term average rate of salary increases.

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 our assessment of historical experience, expectations of healthcare industry inflation and recent prescription drug cost experience, our 2021

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assumed annual healthcare prescription drug cost trend and medical cost trend for eligible participants will remain at 4.00% annual and ultimate rate. For 2020, our assumed annual healthcare prescription drug cost trend and medical cost trend for eligible participants was decreased from an annual and ultimate trend rate of 4.50% to an annual and ultimate trend rate of 4.00%. This change in assumption decreased our obligation by \$102 at December 31, 2019. In addition to the healthcare cost trend, 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 2021.

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. We made discretionary contributions of \$425 in December 2020 and \$200 in December 2019 to our postretirement plan.

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	2020	2019	Target	2020	2019
Equity securities:						
Domestic	16% – 26%	19%	17%	14% – 24%	19%	20%
International	10% – 20%	15	12	9% – 19%	14	12
Fixed income	37% – 47%	35	35	40% – 50%	45	52
Real assets	8% – 18%	8	9	—% – 6%	1	1
Private equity	5% – 15%	9	8	—% – 6%	1	2
Preferred interest	6% – 16%	10	17	—% – —%	—	—
Other	—% – 5%	4	2	15% – 25%	20	13
Total		100%	100%		100%	100%

The pension trust holds a preferred equity interest valued at \$5,771 in AT&T Mobility II LLC (Mobility II), the primary holding company for our wireless business (see Note 17). During 2020, the trust sold a portion of this preferred interest valued at \$2,885 to third party investors. The preferred equity interest was valued at \$8,806 as of December 31, 2019.

At December 31, 2020, AT&T securities represented 11% of assets held by our pension trust, including the preferred interest in Mobility II, and 1% 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 in Mobility II is valued using an income approach by an independent fiduciary.

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

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, 2020:

Pension Assets and Liabilities at Fair Value as of December 31, 2020				
	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	\$ 173	\$ —	\$ —	\$ 173
Interest bearing cash	7	—	—	7
Foreign currency contracts	—	3	—	3
Equity securities:				
Domestic equities	9,784	—	11	9,795
International equities	4,821	11	12	4,844
Preferred interest	—	—	5,771	5,771
Fixed income securities:				
Corporate bonds and other investments	—	11,043	52	11,095
Government and municipal bonds	—	6,039	—	6,039
Mortgage-backed securities	—	442	1	443
Real estate and real assets	—	—	2,544	2,544
Securities lending collateral	621	1,435	—	2,056
Receivable for variation margin	23	—	—	23
Assets at fair value	15,429	18,973	8,391	42,793
Investments sold short and other liabilities at fair value	(450)	(8)	(1)	(459)
Total plan net assets at fair value	\$14,979	\$18,965	\$8,390	\$ 42,334
Assets held at net asset value practical expedient				
Private equity funds				5,154
Real estate funds				1,694
Commingled funds				7,706
Total assets held at net asset value practical expedient				14,554
Other assets (liabilities) ¹				(2,282)
Total Plan Net Assets				\$54,606

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

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Postretirement Assets and Liabilities at Fair Value as of December 31, 2020				
	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 497	\$302	\$—	\$ 799
Equity securities:				
Domestic equities	363	—	—	363
International equities	282	—	—	282
Fixed income securities:				
Corporate bonds and other investments	5	307	3	315
Government and municipal bonds	6	132	1	139
Mortgage-backed securities	—	94	—	94
Securities lending collateral	—	28	—	28
Assets at fair value	1,153	863	4	2,020
Securities lending payable and other liabilities	(1)	(29)	—	(30)
Total plan net assets at fair value	\$1,152	\$834	\$ 4	\$1,990
Assets held at net asset value practical expedient				
Commingled funds				1,843
Private equity				24
Real estate funds				22
Total assets held at net asset value practical expedient				1,889
Other assets (liabilities) ¹				(36)
Total Plan Net Assets				\$3,843

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, 2020:

Pension Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	\$ 8,816	\$ 6	\$ 2,817	\$ 11,639
Realized gains (losses)	(150)	—	255	105
Unrealized gains (losses)	3	—	(178)	(175)
Transfers in	4	51	36	91
Transfers out	—	(3)	—	(3)
Purchases	9,114	1	223	9,338
Sales	(11,994)	(2)	(609)	(12,605)
Balance at end of year	\$ 5,793	\$53	\$2,544	\$ 8,390

Postretirement Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	\$ —	\$ 32	\$ —	\$ 32
Transfers in	—	3	—	3
Transfers out	—	(11)	—	(11)
Sales	—	(20)	—	(20)
Balance at end of year	\$ —	\$ 4	\$ —	\$ 4

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, 2019:

Pension Assets and Liabilities at Fair Value as of December 31, 2019

	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	\$ 85	\$ —	\$ —	\$ 85
Interest bearing cash	529	—	—	529
Foreign currency contracts	—	5	—	5
Equity securities:				
Domestic equities	8,068	—	4	8,072
International equities	3,929	11	6	3,946
Preferred Interest	—	—	8,806	8,806
Fixed income securities:				
Corporate bonds and other investments	—	10,469	4	10,473
Government and municipal bonds	49	6,123	—	6,172
Mortgage-backed securities	—	522	2	524
Real estate and real assets	—	—	2,817	2,817
Securities lending collateral	103	1,658	—	1,761
Receivable for variation margin	5	—	—	5
Assets at fair value	12,768	18,788	11,639	43,195
Investments sold short and other liabilities at fair value	(513)	(2)	—	(515)
Total plan net assets at fair value	\$12,255	\$18,786	\$11,639	\$ 42,680
Assets held at net asset value practical expedient				
Private equity funds				4,544
Real estate funds				2,062
Commingled funds				5,710
Total assets held at net asset value practical expedient				12,316
Other assets (liabilities) ¹				(1,466)
Total Plan Net Assets				\$53,530

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, 2019

	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$248	\$ 301	\$ —	\$ 549
Equity securities:				
Domestic equities	438	—	—	438
International equities	265	—	—	265
Fixed income securities:				
Corporate bonds and other investments	7	492	31	530
Government and municipal bonds	6	182	1	189
Mortgage-backed securities	—	294	—	294
Securities lending collateral	—	36	—	36
Assets at fair value	964	1,305	32	2,301
Securities lending payable and other liabilities	—	(36)	—	(36)
Total plan net assets at fair value	\$964	\$1,269	\$32	\$ 2,265
Assets held at net asset value practical expedient				
Private equity funds				66
Real estate funds				27
Commingled funds				1,797
Total assets held at net asset value practical expedient				1,890
Other assets (liabilities) ¹				(10)
Total Plan Net Assets				\$4,145

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

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

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, 2019:

Pension Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	\$8,750	\$ 4	\$2,579	\$11,333
Realized gains (losses)	—	—	64	64
Unrealized gains (losses)	58	—	45	103
Transfers in	8	5	134	147
Transfers out	—	(6)	—	(6)
Purchases	—	7	228	235
Sales	—	(4)	(233)	(237)
Balance at end of year	\$8,816	\$ 6	\$2,817	\$11,639

Postretirement Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	\$ 1	\$12	\$—	\$13
Transfers in	—	28	—	28
Transfers out	—	(1)	—	(1)
Sales	(1)	(7)	—	(8)
Balance at end of year	\$—	\$32	\$—	\$32

Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2020. 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
2021	\$ 5,391	\$1,392
2022	4,597	1,231
2023	4,428	1,159
2024	4,323	879
2025	4,234	832
Years 2026 – 2030	19,646	3,651

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 \$2,687 and the net

supplemental retirement pension cost was \$330 at and for the year ended December 31, 2020. The projected benefit obligation was \$2,605 and the net supplemental retirement pension credit was \$438 at and for the year ended December 31, 2019.

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 2.30% at December 31, 2020 and 3.20% at December 31, 2019 were calculated using the same methodologies used in calculating the discount rate for our qualified pension and postretirement benefit plans.

Deferred compensation expense was \$183 in 2020, \$199 in 2019 and \$128 in 2018.

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 \$814, \$793 and \$724 for the years ended December 31, 2020, 2019 and 2018.

NOTE 16. 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 vested 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, 2020, we were authorized to issue up to approximately 183 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., those 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:

	2020	2019	2018
Performance stock units	\$348	\$544	\$301
Restricted stock and stock units	290	273	153
Other nonvested stock units	—	7	4
Stock options	—	(5)	5
Total	\$638	\$819	\$463
Income tax benefit	\$157	\$202	\$114

A summary of the status of our nonvested stock units as of December 31, 2020, 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, 2020	42	\$ 33.80
Granted	23	36.90
Vested	(18)	35.87
Forfeited	(4)	34.48
Nonvested at December 31, 2020	43	\$34.50

As of December 31, 2020, there was \$709 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 2.09 years. The total fair value of shares vested during the year was \$647 for 2020, compared to \$798 for 2019 and \$766 for 2018.

It is our intent to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was \$65 for 2020, \$446 for 2019 and \$361 for 2018.

NOTE 17. STOCKHOLDERS' EQUITY

Authorized Shares We have authorized 14 billion common shares of AT&T stock and 10 million preferred shares of AT&T stock, each with a par value of \$1.00 per share. Cumulative perpetual preferred shares consist of the following:

- Series A: 48 thousand shares outstanding at December 31, 2020 and December 31, 2019, with a \$25,000 per share liquidation preference and a dividend rate of 5.000%.
- Series B: 20 thousand shares outstanding at December 31, 2020 and zero outstanding at December 31, 2019, with a €100,000 per share liquidation preference, and an initial rate of 2.875%, subject to reset after May 1, 2025.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

- Series C: 70 thousand shares outstanding at December 31, 2020 and zero outstanding at December 31, 2019, with a \$25,000 per share liquidation preference, and a dividend rate of 4.75%.

So long as the quarterly preferred dividends are declared and paid on a timely basis on each series of preferred shares, there are no limitations on our ability to declare a dividend on or repurchase AT&T common shares. The preferred shares are optionally redeemable by AT&T at the liquidation price on or after five years from the issuance date, or upon certain other contingent events.

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 has approved the following authorizations to repurchase common stock: (1) March 2013 authorization program of 300 million shares, which was completed in 2020 and (2) March 2014 authorization program for an additional 300 million shares, with approximately 178 million outstanding at December 31, 2020.

To implement these authorizations, we used open market repurchases, relying on Rule 10b5-1 of the Securities Exchange Act of 1934, where feasible. We also used accelerated share repurchase agreements with large financial institutions to repurchase our stock. During 2020, we repurchased approximately 142 million shares totaling \$5,278 under the March 2013 and March 2014 authorizations.

Dividend Declarations In December 2020, AT&T declared a quarterly preferred dividend of \$36 and a quarterly common dividend of \$0.52 per share of common stock. In December 2019, AT&T declared a quarterly preferred dividend of \$8 and an increase in its quarterly common dividend to \$0.52 per share of common stock.

Preferred Interests Issued by Subsidiaries We have issued cumulative perpetual preferred membership interests in certain subsidiaries. The preferred interests are entitled to cash distributions, subject to declaration. The preferred interests are included in "Noncontrolling interest" on the consolidated balance sheets.

Mobility II

We previously issued 320 million Series A Cumulative Perpetual Preferred Membership Interests in Mobility II (Mobility preferred interests), representing all currently outstanding Mobility preferred equity interests, which pay cash distributions of \$560 per annum, subject to declaration. So long as the distributions are declared and paid, the terms of the Mobility preferred equity interests will not impose any limitations on cash movements between affiliates, or our ability to declare a dividend on or repurchase AT&T shares.

A holder of the Mobility preferred interests may put the interests to Mobility II. Mobility II may redeem the interests 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 interests 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 common stock, or a combination of cash and AT&T 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 Mobility preferred equity interests with cash.

Tower Holdings

In 2019, we issued \$6,000 nonconvertible cumulative preferred interests in a wireless subsidiary (Tower Holdings) that holds interests in various tower assets and have the right to receive approximately \$6,000 if the purchase options from the tower companies are exercised.

The membership interests in Tower Holdings consist of (1) common interests, which are held by a consolidated subsidiary of AT&T, and (2) two series of preferred interests (collectively the "Tower preferred interests"). The September series (Class A-1) of the preferred interests totals \$1,500 and pays an initial preferred distribution of 5.0%, and the December series (Class A-2) totals \$4,500 and pays an initial preferred distribution of 4.75%. Distributions are paid quarterly, subject to declaration, and reset every five years. Any failure to declare or pay distributions on the Tower preferred interests would not impose any limitation on cash movements between affiliates, or our ability to declare a dividend on or repurchase AT&T shares. We can call the Tower preferred interests at the issue price beginning five years from the issuance date or upon the receipt of proceeds from the sale of the underlying assets.

The holders of the Tower preferred interests have the option to require redemption upon the occurrence of certain contingent events, such as the failure of AT&T to pay the preferred distribution for two or more periods or to meet certain other requirements, including a minimum credit rating. If notice is given upon such an event, all other holders of equal or more subordinate classes of membership interests in Tower Holdings are entitled to receive the same form of consideration payable to the holders of the preferred interests, resulting in a deemed liquidation for accounting purposes.

Telco LLC

In September 2020, we issued \$2,000 nonconvertible cumulative preferred interests out of a newly created limited liability company (Telco LLC) that was formed to hold telecommunication-related assets.

Members' equity in Telco LLC consist of (1) member's interests, which are held by a consolidated subsidiary of AT&T, and (2) preferred interests (Telco preferred interests), which pay an initial preferred distribution of 4.25% annually, subject to declaration, and subject to reset every seven years. Failure to pay distributions on the Telco preferred interests would not limit cash movements between affiliates, or our ability to declare a dividend on or repurchase AT&T shares. We can call the Telco preferred interests at the issue price beginning seven years from the issuance date.

The holders of the Telco preferred interests have the option to require redemption upon the occurrence of certain contingent events, such as the failure of Telco LLC to pay the preferred distribution for two or more periods or to meet certain other requirements, including a minimum credit rating. If notice is given, all other holders of equal or more subordinate classes of members equity are entitled to receive the same form of consideration payable to the holders of the preferred interests, resulting in a deemed liquidation for accounting purposes.

PR Holdings

In 2019, we issued \$1,950 nonconvertible cumulative preferred interests in a subsidiary (PR Holdings) that held notes secured by the proceeds from our agreement to

sell wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands. These preferred interests were redeemed on November 6, 2020. (See Note 6)

The membership interests in PR Holdings consisted of (1) common interests, which were held by consolidated subsidiaries of AT&T, and (2) preferred interests (PR preferred interests). The PR preferred interests paid an initial preferred distribution at an annual rate of 4.75%. Distributions were paid quarterly, subject to declaration.

NOTE 18. SALES OF RECEIVABLES

We have agreements with various third-party financial institutions pertaining to the sales of certain types of our accounts receivable. The most significant of these programs are discussed in detail below and generally consist of (1) receivables arising from equipment installment plans, which are sold for cash and a deferred purchase price, and (2) revolving service and trade receivables. Under these programs, we transfer receivables to purchasers in exchange for cash and additional consideration upon settlement of the receivables, where applicable. Under the terms of our agreements for these programs, we continue to bill and collect the payments from our customers on behalf of the financial institutions.

The sales of 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 sold receivables as cash flows from operations in our consolidated statements of cash flows. Cash receipts on the deferred purchase price are classified as cash flows from investing activities.

Our equipment installment and revolving receivables programs are discussed in detail below. The following table sets forth a summary of the receivables and accounts being serviced at December 31:

	2020		2019	
	Equipment Installment	Revolving	Equipment Installment	Revolving
Gross receivables:	\$5,565	\$3,909	\$4,576	\$3,324
<i>Balance sheet classification</i>				
Accounts receivable				
Notes receivable	2,716	—	2,467	—
Trade receivables	554	3,715	477	2,809
Other Assets				
Noncurrent notes and trade receivables	2,295	194	1,632	515
Outstanding portfolio of receivables derecognized from our consolidated balance sheets	7,827	5,300	9,713	4,300
Cash proceeds received, net of remittances ¹	5,646	5,300	7,211	4,300

¹ Represents amounts to which financial institutions remain entitled, excluding the deferred purchase price.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Equipment Installment Receivables Program

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.

We maintain a program under which we transfer a portion of these receivables through our bankruptcy-remote subsidiary in exchange for cash and additional consideration upon settlement of the receivables, referred to as the deferred purchase price. 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 financial institutions equal to any outstanding remaining installment receivable balance. Accordingly, we record a guarantee obligation for this estimated amount at the time the receivables are transferred.

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

	2020	2019	2018
Gross receivables sold	\$7,270	\$9,921	\$9,391
Net receivables sold ¹	7,026	9,483	8,871
Cash proceeds received	6,089	8,189	7,488
Deferred purchase price recorded	1,021	1,451	1,578
Guarantee obligation recorded	157	341	361

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

The deferred purchase price and guarantee obligation are initially recorded at estimated fair value and subsequently adjusted for changes in present value of expected cash flows. 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 13).

The following table presents the previously transferred equipment installment receivables, which we repurchased in exchange for the associated deferred purchase price:

	2020	2019	2018
Fair value of repurchased receivables	\$1,271	\$1,418	\$1,480
Carrying value of deferred purchase price	1,235	1,350	1,393
Gain on repurchases ¹	\$ 36	\$ 68	\$ 87

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

At December 31, 2020 and December 31, 2019, our deferred purchase price receivable was \$1,991 and \$2,336, respectively, of which \$1,476 and \$1,569 are included in "Other current assets" on our consolidated balance sheets, with the remainder in "Other Assets." The guarantee obligation at December 31, 2020 and December 31, 2019 was \$228 and \$384, respectively, of which \$161 and \$148 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.

Revolving Receivables Program

In 2019, we entered into a one-year revolving agreement to transfer up to \$4,300 of certain receivables through our bankruptcy-remote subsidiaries to various financial institutions on a recurring basis in exchange for cash equal to the gross receivables transferred. In 2020, we expanded the program limit to \$5,300 and we extended the agreement by one year. As customers pay their balances, we transfer additional receivables into the program, resulting in our gross receivables sold exceeding net cash flow impacts (e.g., collect and reinvest). The transferred receivables are fully guaranteed by our bankruptcy-remote subsidiaries, which hold additional receivables in the amount of \$3,909 that are pledged as collateral under this agreement. The transfers are recorded at fair value of the proceeds received and obligations assumed less derecognized receivables. The obligation is subsequently adjusted for changes in estimated expected credit losses and interest rates. Our maximum exposure to loss related to these receivables transferred is limited to the amount outstanding.

The fair value measurement used for the obligation is considered Level 3 under the Fair Value Measurement and Disclosure framework (see Note 13).

The following table sets forth a summary of receivables sold:

	2020	2019	2018
Gross receivables sold/cash proceeds received ¹	\$15,888	\$11,989	\$—
Collections reinvested under revolving agreement	14,888	7,689	—
Net cash proceeds received (remitted)	\$ 1,000	\$ 4,300	\$—
Net receivables sold ²	\$15,760	\$11,604	\$—
Obligations recorded (reversed)	271	530	—

¹ Includes initial sale of receivables of \$1,000 and \$4,300 for 2020 and 2019, respectively.

² Receivables net of allowance, return and incentive reserves and imputed interest.

NOTE 19. 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 that we did not transfer control of the tower assets, which 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 – Net" on our consolidated balance sheets and depreciate them accordingly. At December 31, 2020 and 2019, the tower assets had a balance of \$764 and \$804, respectively. Our depreciation expense for these assets was \$39 for each of 2020, 2019 and 2018.

Payments made to Crown Castle under this arrangement were \$248 for 2020. At December 31, 2020, the future minimum payments under the sublease arrangement are \$253 for 2021, \$258 for 2022, \$264 for 2023, \$269 for 2024, \$274 for 2025 and \$856 thereafter.

NOTE 20. FIRSTNET

In 2017, the First Responder Network Authority (FirstNet) selected AT&T to build and manage the first nationwide broadband network dedicated to America's first responders. Under the 25-year agreement, FirstNet provides 20 MHz of valuable telecommunications spectrum and success-based payments of \$6,500 over the first five years to support network buildout. We are required to construct a network that achieves coverage and nationwide interoperability requirements and 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 own and operate, which we estimate in the \$3,000 or less range over the life of the 25-year contract. After FirstNet's operating expenses are paid, we anticipate the remaining amount, expected to be in the \$15,000 range, will be reinvested into the network.

During 2020, we submitted \$120 in sustainability payments, with future payments under the agreement of \$120 for 2021; \$195 for 2022, 2023, 2024 and 2025; and \$16,620 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, 2020, we have collected approximately \$5,000 for the completion of certain tasks and anticipate collecting the remainder of the \$6,500 as we achieve milestones set out by FirstNet over the next two years. We also expect to receive approximately \$200 over the next few years from FirstNet for reinvestment above the original success-based payments.

NOTE 21. 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 \$20,274 in 2021, \$21,275 in total for 2022 and 2023, \$11,142 in total for 2024 and 2025 and \$17,919 in total for years thereafter.

See Note 13 for a discussion of collateral and credit-risk contingencies.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

NOTE 22. ADDITIONAL FINANCIAL INFORMATION

Consolidated Balance Sheets	December 31,	
	2020	2019
Accounts payable and accrued liabilities:		
Accounts payable	\$31,836	\$29,640
Accrued payroll and commissions	2,988	3,126
Current portion of employee benefit obligation	1,415	1,528
Accrued participations and residuals	2,708	2,852
Accrued interest	2,454	2,498
Other	7,631	6,312
Total accounts payable and accrued liabilities	\$49,032	\$45,956

Consolidated Statements of Income	2020	2019	2018
Advertising expense	\$5,253	\$ 6,121	\$ 5,100
Interest expense incurred	\$8,048	\$ 8,622	\$ 8,450
Capitalized interest	(123)	(200)	(493)
Total interest expense	\$7,925	\$ 8,422	\$ 7,957

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 table summarizes cash and cash equivalents and restricted cash balances contained on our consolidated balance sheets:

Cash and Cash Equivalents and Restricted Cash	December 31,			
	2020	2019	2018	2017
Cash and cash equivalents	\$9,740	\$12,130	\$5,204	\$50,498
Restricted cash in Other current assets	9	69	61	6
Restricted cash in Other Assets	121	96	135	428
Cash and cash equivalents and restricted cash	\$9,870	\$12,295	\$5,400	\$50,932

The following table summarizes cash paid during the periods for interest and income taxes:

Consolidated Statements of Cash Flows	2020	2019	2018
Cash paid (received) during the year for:			
Interest	\$8,237	\$8,693	\$ 8,818
Income taxes, net of refunds	993	1,421	(354)
Spectrum acquisitions	1,613	1,576	521

Noncash Investing and Financing Activities In connection with capital improvements and the acquisition of other productive assets, we negotiate favorable payment terms (referred to as vendor financing), which are reported as financing activities in our statements of cash flows when paid. We recorded \$4,664 of vendor financing commitments related to capital investments in 2020, \$2,632 in 2019 and \$2,162 in 2018.

Labor Contracts As of January 31, 2021, we employed approximately 230,000 persons. Approximately 37% 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. There are no significant contracts expiring in 2021. A contract covering approximately 14,000 Mobility employees in 36 states and the District of Columbia that was set to expire in February 2021 was extended until February 2022. A contract covering approximately 10,000 Mobility employees in nine Southeast states that was set to expire in February 2022 was extended until February 2023.

NOTE 23. SUBSEQUENT EVENTS (UNAUDITED)

Video Business On February 25, 2021, we signed an agreement to form a new company named DIRECTV (New DTV) with TPG Capital, which will be jointly governed by a board with representation from both AT&T and TPG. Under the agreement, we will contribute our Video business unit to New DTV for \$4,250 of junior preferred units, an additional distribution preference of \$4,200 and a 70% economic interest in common units. We expect to receive \$7,600 in cash from New DTV at closing. TPG will contribute approximately \$1,800 in cash to New DTV for \$1,800 of senior preferred units and a 30% economic interest in common units. The remaining \$5,800 will be funded by debt taken on by New DTV. As part of this transaction, we agreed to pay net losses under the NFL SUNDAY TICKET contract up to a cap of \$2,500 over the remaining period of the contract.

The transaction is expected to close in the second half of 2021, pending customary closing conditions. The total of \$7,600 of proceeds from the transaction are expected to reduce our total and net debt positions.

In the first quarter of 2021, we expect to apply held-for-sale accounting treatment to the assets and liabilities of the U.S. video business, and accordingly will include the assets in "Other current assets," and the related liabilities in "Accounts payable and accrued liabilities," on our consolidated balance sheet at March 31, 2021. The carrying amounts at December 31, 2020 of these assets and liabilities were approximately \$16,150 and \$4,900, respectively.

Spectrum Auction On February 24, 2021, the FCC announced that AT&T was the winning bidder for 1,621 C-Band licenses, comprised of a total of 80 MHz nationwide, including 40 MHz in Phase I. We must provide to the FCC an initial down payment of \$4,681 on March 10, 2021, of which \$550 was paid as an upfront payment prior to the start of the auction, and to pay a remaining \$18,725 on or before March 24, 2021. We estimate that AT&T will be responsible for \$955 of Incentive Payments upon clearing of Phase I spectrum and \$2,112 upon clearing of Phase II spectrum. Additionally, we will be responsible for a portion of compensable relocation costs over the next several years as the spectrum is being cleared. Satellite operators have provided the FCC with relocation cost estimates totaling \$3,400. AT&T intends to fund the purchase price using a combination of cash and short-term investments, funds from operations and either short-term or long-term debt, depending upon market conditions.

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, 2020. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework* (2013 framework). Based on its assessment, AT&T management believes that, as of December 31, 2020, 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.



John T. Stankey
Chief Executive Officer
and President



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

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2020 and 2019, 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, 2020, and the related notes and financial statement schedule listed in Item 15(a) (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, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, 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, 2020, 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 25, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Discount rates used in determining pension and postretirement benefit obligations

Description of the Matter At December 31, 2020, the Company's pension benefit obligation was \$62,158 million and exceeded the fair value of defined benefit pension plan assets of \$54,606 million, resulting in an unfunded benefit obligation of \$7,552 million. Additionally, at December 31, 2020, the Company's postretirement benefit obligation was \$13,928 million and exceeded the fair value of postretirement plan assets of \$3,843 million, resulting in an unfunded benefit obligation of \$10,085 million. As explained in Note 15 to the consolidated financial statements, the Company updates the assumptions used to measure the defined benefit pension and postretirement benefit obligations, including discount rates, at December 31 or upon a remeasurement event. The Company determines the discount rates used to measure the obligations based on the development of a yield curve using high-quality corporate bonds selected to yield cash flows that correspond to the expected timing and amount of the expected future benefit payments. The selected discount rate has a significant effect on the measurement of the defined benefit pension and postretirement benefit obligations.

Auditing the defined benefit pension and postretirement benefit obligations was complex due to the need to evaluate the highly judgmental nature of the actuarial assumptions made by management, primarily the discount rate, used in the Company's measurement process. Auditing the discount rates associated with the measurement of the defined benefit pension and postretirement benefit obligations was complex because it required an evaluation of the credit quality of the corporate bonds used to develop the discount rate and the correlation of those bonds' cash inflows to the timing and amount of future expected benefit payments.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design and tested the operating effectiveness of certain controls over management's review of the determination of the discount rates used in the defined benefit pension and postretirement benefit obligations calculations.

To test the determination of the discount rate used in the calculation of the defined benefit pension and postretirement benefit obligations, we performed audit procedures that focused on evaluating, with the assistance of our actuarial specialists, the determination of the discount rates, among other procedures. For example, we evaluated the selected yield curve used to determine the discount rates applied in measuring the defined benefit pension and postretirement benefit obligations. As part of this assessment, we considered the credit quality of the corporate bonds that comprise the yield curve and compared the timing and amount of cash flows at maturity with the expected amounts and duration of the related benefit payments. As part of this assessment, we compared the Company's current projections to historical projected defined benefit pension and postretirement benefit obligations cash flows and compared the current-year benefits paid to the prior-year projected cash flows.

Uncertain tax positions

Description of the Matter As discussed in Note 14 to the consolidated financial statements, at December 31, 2020, the Company had recorded unrecognized tax benefits of \$12,451 million for uncertain tax positions. Uncertainty in a tax position may arise as tax laws are subject to interpretation. The Company uses judgment to (1) determine whether, based on the technical merits, a tax position is more likely than not to be sustained and (2) measure the amount of tax benefit that qualifies for recognition within the financial statements. Changes in facts and circumstances, such as changes in tax laws, new regulations issued by taxing authorities and communications with taxing authorities may affect the amount of uncertain tax positions and, in turn, income tax expense. Estimated tax benefits related to uncertain tax positions that are not more likely than not to be sustained are reported as unrecognized income tax benefits.

Auditing the measurement of uncertain tax positions was challenging because the measurement is based on interpretations of tax laws and legal rulings. Each tax position involves unique facts and circumstances that must be evaluated, and there may be many uncertainties around initial recognition and de-recognition of tax positions, including regulatory changes, litigation and examination activity.

How We Addressed the Matter in Our Audit We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's accounting process for uncertain tax positions. This included controls over identification and measurement of the benefits of the uncertain tax positions, including management's review of the inputs and calculations of unrecognized income tax benefits, both initially and on an ongoing basis.

We involved our tax professionals to assist us in assessing significant uncertain tax positions, including an evaluation of the technical merits of individual positions, the determination of whether a tax position was more-likely-than-not to be sustained, and the Company's measurement of its uncertain tax positions, including the computation of interest and penalties, among other procedures. For significant new positions, we assessed the Company's filing position, correspondence with the relevant tax authorities and third-party advice obtained by the Company, as appropriate. For existing positions, we assessed changes in facts and law, as well as settlements of similar positions for any impact to the recognized liability for the positions. We analyzed the Company's assumptions and data used to determine the amount of tax benefit to recognize and tested the accuracy of the calculations. We also evaluated the adequacy of the Company's financial statement disclosures related to uncertain tax positions included in Note 14.

Impairment of goodwill and long-lived assets

Description of the Matter For the year ended December 31, 2020, the Company recorded asset impairments of \$18,880 million, consisting primarily of \$10,465 million of goodwill and \$7,255 million of long-lived assets. As discussed in Note 1 to the consolidated financial statements, reporting unit goodwill is tested at least annually for impairment, and long-lived assets, including definite-lived intangible assets, are evaluated 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. Estimating fair values in connection with these impairment evaluations involves the utilization of discounted cash flow models, and, in the case of reporting units, market multiples valuation approaches. As disclosed in Note 9 to the consolidated financial statements, the October 1, 2020 estimated fair values of the Turner, HBO, and Entertainment Group reporting units exceeded their carrying values by less than 10%. The Company's later separation of the Entertainment Group reporting unit into the Video and Broadband reporting units required additional impairment evaluations prior to and after the separation, pursuant to which the Company recorded a goodwill impairment charge of \$8,253 million, representing the entire amount of goodwill allocated for the Video reporting unit. The Company also recorded a \$2,212 million goodwill impairment charge for the Vrio reporting unit, representing the entire amount of goodwill for that reporting unit. Furthermore, as disclosed in Notes 7 and 9 to the consolidated financial statements, the Company identified impairment indicators for its Video asset group and was required to evaluate its recoverability utilizing probability-weighted expected cash flows, resulting in the aforementioned \$7,255 million impairment charge.

Auditing management's impairment evaluations for the reporting unit goodwill and long-lived assets discussed above was complex because the determination of expected cash flows used in the evaluation of recoverability and the estimation of fair values involve subjective management assumptions, such as estimates of subscriber counts, cash flow probabilities, changes in average revenue per user, discount rate, capital investment and content costs. These assumptions are forward-looking and could be affected by shifts in long-term strategy and the evolving market landscape. Changes in these assumptions can have a material effect on the determination of fair value.

*How We
Addressed
the Matter in
Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's impairment evaluation processes. Our procedures included testing controls over management's review of the valuation models and the significant assumptions described above.

Our audit procedures to test management's impairment evaluations included, among others, assessing the valuation methodologies and significant assumptions discussed above and the underlying data used to develop such assumptions. For example, we compared the significant assumptions to current industry, market and economic trends, and other guideline companies in the same industry. Where appropriate, we evaluated whether changes to the Company's business model, customer base and other factors would affect the significant assumptions. We also assessed the historical accuracy of management's estimates and performed independent sensitivity analyses. We involved our valuation specialists to assist us in performing our audit procedures to test the estimated fair values of the Company's reporting units and long-lived assets. Our procedures to test management's impairment evaluation of its Video asset group also included challenging the reasonableness of the assigned probabilities discussed above and the underlying factors considered by management to develop such probabilities.

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

Dallas, Texas
February 25, 2021

Ernst & Young LLP

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, 2020, 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, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2020 consolidated financial statements of the Company and our report dated February 25, 2021 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.

Dallas, Texas
February 25, 2021

Ernst & Young LLP

BROADBAND CONNECTIVITY

¹ Based on GWS OneScore Sept. 2020.

² Based on analysis by Ookla® of Speedtest Intelligence® data of average download speeds for Q1, Q2, Q3 and Q4 2019, and median download speeds for Q1, Q2 and Q3 2020. Ookla trademarks used under license and reprinted with permission.

³ The more than 2.5 million U.S. business customer locations are included within the more than 8.5 million U.S. business customer locations on or within 1,000 feet of our fiber. Speed comparison of Internet 1000 wired upload connection speed to major cable providers 1GIG cable service with uploads of 35 Mbps (Teleological Systems 1/2021).

SOFTWARE-BASED ENTERTAINMENT

⁴ Domestic HBO Max/HBO subscribers exclude customers that are part of a free trial. Worldwide HBO Max and HBO subscribers consist of domestic and international HBO subscribers and domestic HBO Max subscribers and excludes basic subscribers and Cinemax subscribers.

⁵ Represents postpaid phone subscribers on unlimited plans at end-of-year 2020 versus end-of-year 2019.

FANTASTIC STORYTELLING

⁶ Source: Nielsen NPower, Average monthly reach (11/1/19-10/31/20). Based on P2+, Total Day. WarnerMedia TV = AD5M, CNN, CNNe, HLN, NBA-TV, TBSC, TNT, TOON, TRU, BOOM; Includes HBO & Warner Brothers Syndication (Linear). Based on 6 min qualifier, Live + 7 Day.

FINANCIAL STRENGTH AND CAPITAL ALLOCATION

⁷ Free cash flow is cash from operating activities minus capital expenditures.

⁸ Free cash flow dividend payout ratio is total dividends paid divided by free cash flow. For full year 2020, dividends paid totaled \$14.956 billion.

⁹ The transaction includes employees; network assets and spectrum; real estate and leases; customers, including more than 1 million wireless subscribers; and contracts. AT&T will retain DIRECTV and certain global business customer relationships and FirstNet responsibilities and relationships.

¹⁰ Gross capital investment includes capital expenditures and cash payments for vendor financing and excludes FirstNet reimbursements. In 2021, vendor financing is expected to be about in the \$2 billion range and FirstNet reimbursements are expected to be about \$1 billion.

¹¹ Due to high variability and difficulty in predicting items that impact cash from operating activities and capital expenditures, the company is not able to provide a reconciliation between projected free cash flow and the most comparable GAAP metric without unreasonable effort.

ADVOCATING FOR SMART PUBLIC POLICIES

¹² Based on U.S. capital expenditures from 2016 to 2020.

William E. Kennard, 64 ^(3,4,6)



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

Samuel A. Di Piazza, Jr, 70 ^(1,4,6)



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

Richard W. Fisher,* 71 ^(2,3)



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

Scott T. Ford, 58 ^(2,4,5)



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

Glenn H. Hutchins, 65 ^(2,4,6)



Chairman
North Island
Co-Founder
Silver Lake

Director since 2014
Background: Technology, public policy

Debra L. Lee, 66 ^(3,6)



Chair
Leading Women Defined Foundation
Director since 2019
Background: Media, entertainment

Stephen J. Luczo, 63 ^(1,2)



Managing Partner
Crosspoint Capital Partners, L.P.
Director since 2019
Background: Technology, finance,
operations management

Michael B. McCallister, 68 ^(1,5)



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

Background: Health care

Beth E. Mooney, 66 ^(2,4,5)



Retired Chairman
and Chief Executive Officer
KeyCorp
Director since 2013

Background: Banking

Matthew K. Rose, 61 ^(3,4,5)



Retired Chairman
and Chief Executive Officer
Burlington Northern Santa Fe, LLC
Director since 2010

Background: Freight transport

John Stankey, 58



Chief Executive Officer and President
AT&T Inc.
Director since June 2020

Background: Telecommunications,
media, entertainment, technology

Cynthia B. Taylor, 59 ^(1,3)



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

Background: Public accounting,
oil and gas

Geoffrey Y. Yang, 61 ^(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 25, 2021.)

*Retiring April 30, 2021



Executive Officers of AT&T Inc. and Its Affiliates

John Stankey, 58



Chief Executive Officer
and President

Ed Gillespie, 59



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

David Huntley, 62



Senior Executive Vice President
and Chief Compliance Officer

Jason Kilar, 49



Chief Executive Officer
Warner Media, LLC

Lori Lee, 55



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

David McAtee II, 52



Senior Executive Vice President
and General Counsel

Jeff McElfresh, 50



Chief Executive Officer
AT&T Communications, LLC

Angela Santone, 49



Senior Executive Vice President –
Human Resources

John Stephens, 61*



Senior Executive Vice President
and Chief Financial Officer

(Information is provided
as of February 25, 2021.)

*Retiring March 31, 2021