Q4 2018 AT&T EARNINGS

# Investor Briefing

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# AT&T Reports Fourth-Quarter Results

## Full-Year Consolidated Results

- *Diluted EPS of $2.85 as reported compared to $4.76 in the prior year (2017 impacted by tax reform)*
- *Adjusted EPS of $3.52 compared to $3.05 in the year-ago quarter*
- *Cash from operations of $43.6 billion, up 15%*
- *Capital expenditures of $21.3 billion*
- *Free cash flow of $22.4 billion, up 36%*
- *Dividend payout ratio of 60%[1]*
- *Consolidated revenues of $170.8 billion*

## Fourth-Quarter Consolidated Results

- *Diluted EPS of $0.66 as reported compared to $3.08 in the year-ago quarter (2017 impacted by tax reform)*
- *Net income of $4.9 billion compared to $19.0 billion in the year-ago quarter (2017 impacted by tax reform)*
- *Adjusted EPS of $0.86 compared to $0.78 in the year-ago quarter*
- *Cash from operations of $12.1 billion, up 27%*
- *Capital expenditures of $4.2 billion*
- *Dividend payout ratio 46%[1]*
- *Free cash flow of $7.9 billion, up 78%*
- *Consolidated revenues of $48.0 billion*

## As Part of Fourth-Quarter Results, AT&T Reports:

- **Strong Cash from Operations and Record Free Cash Flow**
- **Consolidated Pro Forma Adjusted EBITDA Growth**
- **Deleveraging Plan on Track**
- **2019 Guidance Reaffirmed**
- **North America Wireless Highlights:**
  - 3.8 million total wireless net adds:
    - 2.8 million in U.S., driven by connected devices and smartphones
    - 1.0 million in Mexico
- **Communications Highlights:**
  - Operating income up 3.1% on a comparable basis; EBITDA up 1.9%
  - **Mobility:**
    - Service revenues up 2.9% on a comparable basis; operating income up 18.7% with EBITDA up 13.3% on a comparable basis
    - 147,000 phone net adds in the U.S.
      - 134,000 postpaid phone net adds
      - 13,000 prepaid phone net adds
    - 467,000 branded smartphones added to base
  - **Entertainment Group:**
    - Focus on profitability and reduced promotions leads to losses in video subscribers
    - More than 11 million customer locations passed with fiber
- **WarnerMedia Highlights:**
  - Revenues up with operating income gains in all business units
    - Strong Warner Bros. theatrical and television licensing revenue growth
    - Turner subscription revenue growth
    - HBO digital subscriber growth continued
    - 11 Academy Award® nominations
- **Latin America Highlights:**
  - 3.2 million Mexico wireless full-year net adds
  - 250,000 full-year Vrio net adds
- **Xandr Highlights:**
  - Advertising revenues grew by 48.6%; up 26.0% excluding the AppNexus acquisition
  - Continued progress in strategic initiatives

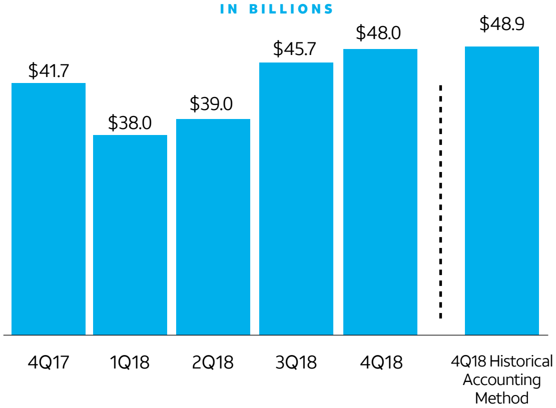
## CONSOLIDATED FINANCIAL RESULTS[2]

AT&T's consolidated revenues for the fourth quarter totaled $48.0 billion versus $41.7 billion in the year-ago quarter, up 15.2%, primarily due to the Time Warner acquisition partially offset by the impact of ASC 606 which includes the policy election of netting of approximately $980 million of USF revenues with operating expenses. Without the accounting change, revenues were $48.9 billion, an increase of 17.2% primarily due to the Time Warner acquisition. Declines in legacy wireline services, wireless equipment, domestic video and Vrio were more than offset by WarnerMedia and growth in domestic wireless services and Xandr.

Operating expenses were $41.8 billion versus $40.4 billion in the year-ago quarter, primarily due to the Time Warner acquisition, partially offset by the netting of USF and other regulatory fees and the deferral of commissions under ASC 606. Excluding those impacts, operating expenses were $43.3 billion, an increase of about $2.9 billion due to the Time Warner acquisition and Entertainment Group content cost pressure, partially offset by the write-off of certain network assets in the prior year, lower wireless equipment costs and cost efficiencies.

### Consolidated Revenues

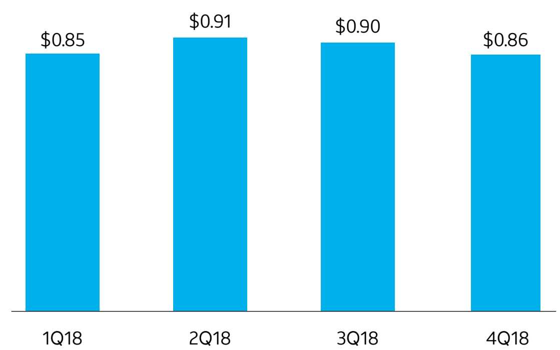
IN BILLIONS




Versus results from the fourth quarter of 2017, operating income was $6.2 billion versus $1.3 billion, primarily due to the Time Warner acquisition and the write-off of certain network assets in the prior year; and operating income margin was 12.8% versus 3.1%. On a comparative basis, operating income was $5.6 billion and operating income margin was 11.4%. When adjusting for amortization, merger- and integration-related expenses and other items, operating income was $9.4 billion, or $8.8 billion on a comparative basis, versus $6.3 billion in the year-ago quarter, and operating income margin was 19.6%, or 18.1% on a comparative basis, versus 15.1% in the year-ago quarter due to the acquisition of Time Warner and impact of ASC 606.

Fourth-quarter net income attributable to AT&T was $4.9 billion, or $0.66 per diluted share, versus $19.0 billion, or $3.08 per diluted share, in the year-ago quarter which reflected the impact of the December 2017 federal Tax Cuts and Jobs Act. Adjusting for $0.20, which includes amortization costs, merger- and integration-related expenses and other items, a true-up of deferred tax liability remeasurement and other tax items and a non-cash actuarial gain on benefit plans from the annual remeasurement process, earnings per diluted share was $0.86 compared to an adjusted $0.78 in the year-ago quarter, a 10% increase.

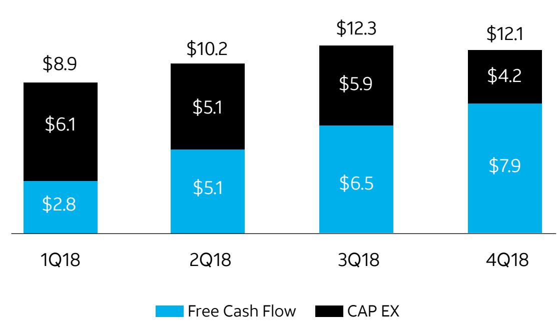
### Adjusted Earnings Per Share




Cash from operating activities was $12.1 billion, and capital expenditures were $4.2 billion. Capital investment included about $270 million in FirstNet capital costs and $1.1 billion in FirstNet capital reimbursements. Free cash flow — cash from operating activities minus capital expenditures — was $7.9 billion for the quarter.

### Cash from Operations

IN BILLIONS



## FULL-YEAR RESULTS

For full-year 2018 when compared with 2017 results, AT&T's consolidated revenues totaled $170.8 billion versus $160.5 billion, up 6.4%, primarily due to the Time Warner acquisition partially offset by the impact of ASC 606 which includes the policy election of netting of approximately $3.7 billion of USF revenues with operating expenses. Without the accounting change, revenues were $174.3 billion, an increase of 8.6% primarily due to the Time Warner acquisition.

Operating expenses were $144.7 billion compared with $140.6 billion, primarily due to the Time Warner acquisition partially offset by the netting of USF and other regulatory fees and the deferral of commissions under ASC 606. Excluding those impacts, operating expenses were $150.6 billion, an increase of about $10.0 billion due to the Time Warner acquisition, Entertainment Group content cost pressure and higher wireless equipment costs, partially offset by the write-off of certain network assets in the prior year and cost efficiencies.

Versus results from 2017, operating income was $26.1 billion, up 30.7% primarily due to the Time Warner acquisition and the write-off of certain network assets in the prior year; and operating income margin was 15.3% versus 12.4%. On a comparative basis, operating income was $23.7 billion and operating income margin was 13.6%. With adjustments for both years, operating income was $35.2 billion, or $32.8 billion on a comparable basis, versus $29.5 billion in 2017, and operating income margin was 20.6%, or 18.8% on a comparative basis, versus 18.4% in 2017.

2018 net income attributable to AT&T was $19.4 billion, or $2.85 per diluted share, versus $29.5 billion, or $4.76 per diluted share in 2017. With adjustments for both years, earnings per diluted share was $3.52 compared to an adjusted $3.05 in 2017, up 15% primarily due to lower rates associated with tax reform, the impact of ASC 606 and the acquisition of Time Warner.

AT&T's full-year cash from operating activities was $43.6 billion versus $38.0 billion in 2017. Capital expenditures, including capitalized interest, totaled $21.3 billion versus $21.6 billion in 2017. Capital investment included about $1.2 billion in FirstNet capital costs and $1.4 billion in FirstNet capital reimbursements. Full-year free cash flow was $22.4 billion compared to $16.5 billion in 2017, up 36%. The company's free cash flow dividend payout ratio for the full year was 60%.[1]

## 2019 OUTLOOK[3]

AT&T expects in 2019:

- Free cash flow in the $26 billion range;
- Low single-digit adjusted EPS growth;
- Dividend payout ratio in the high 50s% range;
- End-of-year net debt to adjusted EBITDA in the 2.5x range;
- Gross capital investment in the $23 billion range[4]

*[1]Free cash flow dividend payout ratio is dividends divided by free cash flow.*

*[2]AT&T adopted new U.S. accounting standards that deal with revenue recognition (ASC 606), post-employment benefit costs and certain cash receipts on installment receivables. These changes impact the company's income statements and cash flows. With the adoption of ASC 606, the company made a policy decision to record Universal Service Fees (USF) and other regulatory fees on a net basis. The company is providing comparable results in addition to GAAP to help investors better understand the impact on financials from ASC 606 and the policy decision. Historical income statements and cash flows have been recast to show only the impact of the adoption of the other two accounting standards.*

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

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

# Communications

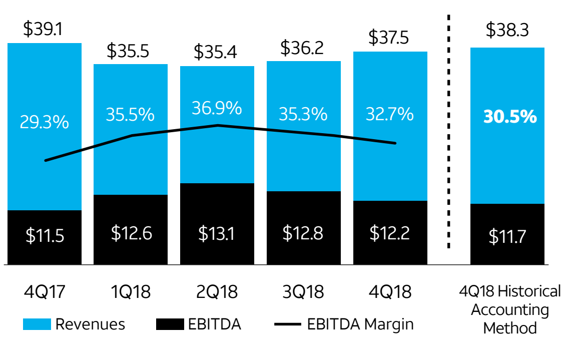
**AT&T Communications is comprised of three business units: Mobility, Entertainment Group and Business Wireline. Mobility provides nationwide wireless service to consumer and wholesale subscribers located in the United States and in U.S. territories. The company's wireless network powers voice and data services, including high-speed internet and video entertainment. AT&T's Entertainment Group provides video, high-speed internet and communications services predominantly to residential customers in the United States. Business Wireline provides communications services to nearly 3 million business customers, including multinational corporations and government and wholesale customers.**

## FINANCIAL HIGHLIGHTS

AT&T Communications revenues reflected gains in Mobility that were offset by declines in the Entertainment Group and Business Wireline. Total Communications revenues were $37.5 billion, down 4.2% year over year, or down 2.1% on a comparable basis.

**Communications Revenues & EBITDA Margin**

IN BILLIONS




- Fourth-quarter operating expenses were $29.8 billion, down 7.5%, or down 3.2% on a comparative basis, versus the fourth quarter of 2017. Operating income totaled $7.6 billion, up 11.3%, or up 3.1% on a comparative basis, versus the fourth quarter of 2017.
- Fourth-quarter operating income margin was 20.4% compared with 17.6% in the year ago quarter, or 18.5%, or up 90 basis points on a comparative basis.

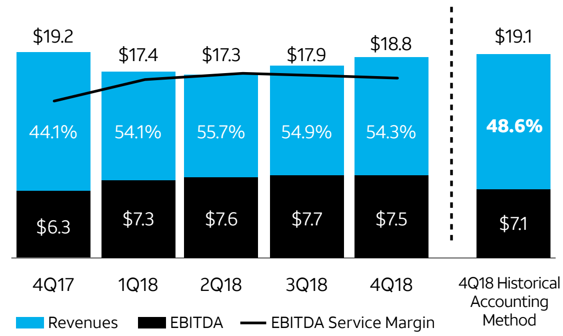
## MOBILITY

Wireless revenues reflected higher equipment revenues versus the year-ago quarter, offset by the impact of ASC 606 revenue recognition. (Equipment revenues were down on a comparable basis.)

- Total wireless revenues were $18.8 billion, down 2.1% year over year. On a comparable basis, revenues were down 0.6% due to a decline in equipment revenues, which was mostly offset by an increase in service revenues. Wireless service revenues of $13.9 billion were down 3.0% year over year due to accounting changes, or up 2.9% on a comparable basis, due to subscriber gains and pricing actions. Wireless equipment revenues increased 0.5% to $4.9 billion. On a comparable basis, equipment revenues were down 10.9% due to lower postpaid smartphone sales.

**Mobility Revenues and EBITDA Service Margins**

IN BILLIONS

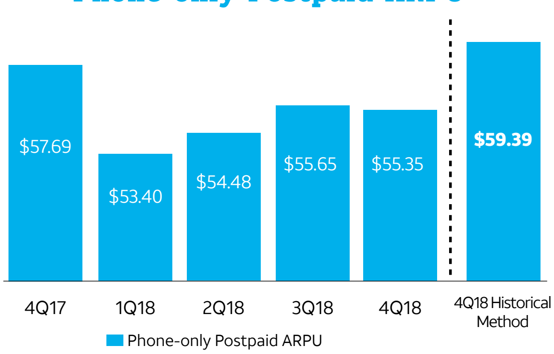


- Fourth-quarter wireless operating expenses totaled $13.3 billion, down 10.6% year over year, or down 6.1% on a comparable basis, due to the impact of revenue recognition, cost efficiencies and lower postpaid smartphone volumes.
- Wireless operating income was $5.5 billion, up 27.6% year over year. On a comparable basis, wireless operating income was $5.1 billion, up 18.7%.
- Wireless margins on a comparable basis reflected disciplined promotions with lower volumes, increased service revenue and cost efficiencies. AT&T's fourth-quarter wireless operating income margin was 29.1%, compared to 22.3% in the year-earlier quarter and 26.6% on a comparable basis.
- Wireless EBITDA margin was 40.1% versus 32.9% in the year-ago quarter and 37.5% on a comparable basis. Wireless EBITDA service margin was the best ever for a fourth quarter. Reported EBITDA service margin was 54.3% compared to 44.1% in the year-ago quarter and 48.6% on a comparable basis. (EBITDA service margin is operating income before depreciation and amortization, divided by total service revenues.)

## ARPU

The impact of revenue recognition and the change in policy on USF fees is reflected in postpaid service ARPU (average revenues per user).

- Postpaid phone-only ARPU decreased 4.1% versus the year-earlier quarter. On a comparable basis, phone-only ARPU was up 3.0%.

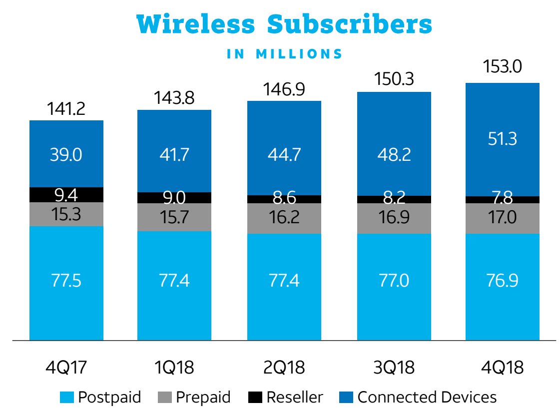



*Wireless home phone has been reclassified from postpaid phones to other postpaid.

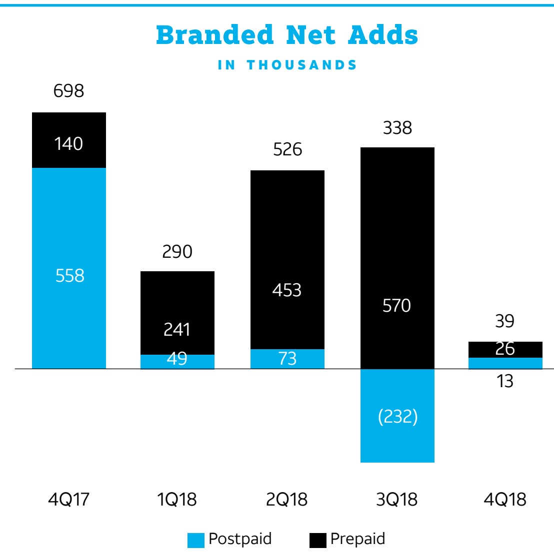
## SUBSCRIBER METRICS

In the fourth quarter, AT&T posted a net increase in total wireless subscribers of 2.8 million to reach 153.0 million in service.

- The company had 13,000 postpaid net adds with gains in wearables and phones mostly offset by tablet losses; however, the company added 134,000 postpaid phones. Postpaid smartphone net adds were 232,000. Tablet and other branded computing device losses were 410,000.
- The company added 26,000 prepaid subscribers, which included 13,000 prepaid phone subscribers. AT&T also added 3.2 million connected devices in the quarter and lost 438,000 reseller subscribers.




- The company had 39,000 branded net adds (both postpaid and prepaid) in the quarter, including 268,000 branded smartphones. The branded smartphone base increased by 467,000 in the quarter.

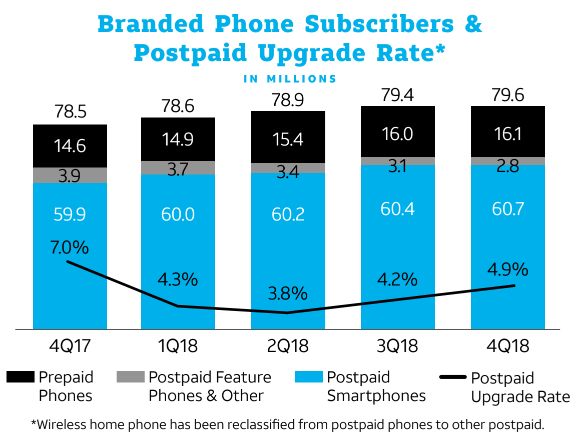


## SMARTPHONES

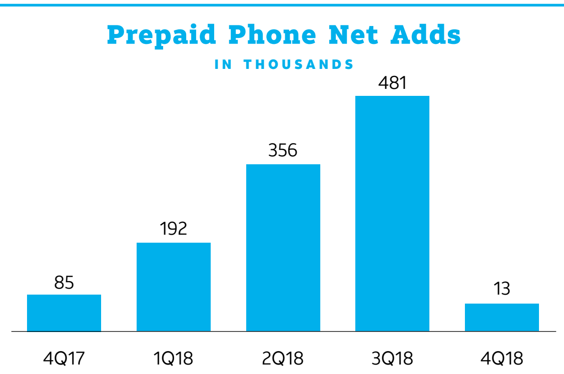
The company's postpaid and prepaid smartphone base continued to grow in the quarter.

- The company had 7.6 million* branded smartphone gross adds and upgrades in the quarter, including 1.9 million* from prepaid. The postpaid upgrade rate in the quarter was 4.9%, down from 7.0% in the year-ago quarter.

* *Updated 2/3/2020.*




- Sales on AT&T Next were 4.7 million, or more than 80% of all postpaid smartphone gross adds and upgrades. The company also had 531,000 BYOD gross adds. That means about 92% of postpaid smartphone transactions in the quarter were on non-subsidy plans.




- More than 50% of the company's postpaid smartphone base is currently on AT&T Next, with more than 90% of postpaid smartphone subscribers on no-device-subsidy plans.

## CHURN

Postpaid churn was 1.24%, up from 1.11% in the year-ago quarter largely due to limited promotional activity. Postpaid phone churn was 1.00%, compared to 0.89% in the year-ago quarter. Branded churn was 1.82%, compared to 1.75% in the year-ago quarter.

## ENTERTAINMENT GROUP

Entertainment Group revenues were $12.0 billion, down 4.8% versus the year-earlier quarter, reflecting the impact of ASC 606 revenue recognition and declines in TV subscribers and legacy services. On a comparative basis, excluding the impact of revenue recognition, revenues were down 3.0%.

- Total video revenues were down mostly due to declines in linear TV subscribers partly offset by higher advertising sales.
- Broadband revenues were up 6.4% due to an allocation adjustment for bundled discounts and higher revenue from fiber customers which was partially offset by legacy declines and simplified pricing.

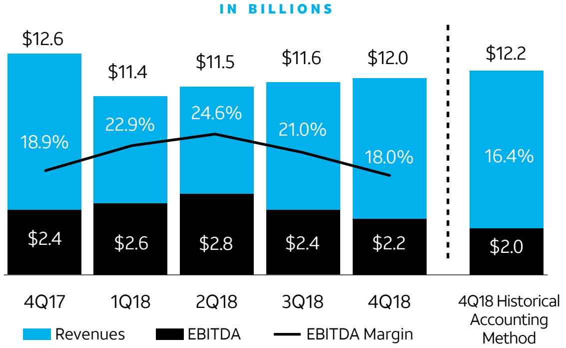
Fourth-quarter operating expenses were $11.1 billion, down 3.7% from a year ago. On a comparative basis, operating expenses were down 0.4% due to cost initiatives, lower volumes and the impact of a prior update to expected subscriber life on deferral amortization. These were partially offset by content-cost increases, net of one less week of the NFL SUNDAY TICKET.

Operating income totaled $826 million, down 17.5% from the year-ago quarter. On a comparative basis, operating income was $669 million, down 33.2% from the year-ago quarter.

- Fourth-quarter operating income margin was 6.9%, down from 8.0% in the year-earlier quarter. Excluding the impact of revenue recognition, operating income margin was 5.5%.
- Entertainment Group EBITDA margin was 18.0%, compared to 18.9% in the fourth quarter of 2017 and 16.4% on a comparative basis, driven by declines in linear subscribers and legacy services as well as TV content-cost increases, net of one less week of NFL SUNDAY TICKET, partially offset by cost efficiencies and higher advertising sales. (EBITDA margin is operating income before depreciation and amortization, divided by total Entertainment Group revenues.)

**Entertainment Group Revenues & EBITDA Margin**

IN BILLIONS




## SUBSCRIBER METRICS

Total video subscribers declined by 658,000 in the quarter. The Entertainment Group ended the quarter with 24.5 million total video subscribers.

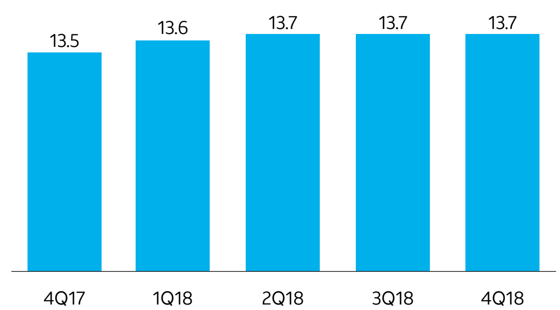
- Linear video subscribers declined 391,000 in the fourth quarter due to an increase in customers rolling off promotional discounts as well as competition from over-the-top services. Satellite subscribers declined by 403,000 in the quarter, and IPTV subscribers increased by 12,000.
- DIRECTV NOW lost 267,000 subscribers as the company scaled back promotions and the number of customers on entry-level plans declined significantly; however, the number of customers on higher-tiered plans remained stable. AT&T WatchTV has more than 500,000 established accounts and engagement from those subscribers actively using the service has been increasing.

The Entertainment Group lost 32,000 broadband subscribers in the fourth quarter.

- The Entertainment Group had net adds of 6,000 IP broadband subscribers in the fourth quarter with DSL losses of 38,000. IP broadband subscribers benefited from the expansion of the fiber network and simplified pricing and, at the end of the quarter, totaled 13.7 million.
- Customers continue to move up broadband speed tiers. More than 70% of all IP broadband customers have purchased speed tiers between 18 megabits and 1 gigabit. About 70% of all broadband subscribers on AT&T's fiber network have speeds of 100 megabits or more. Total broadband customers with speeds of 100 megabits or faster have increased more than 150% in the past year.

**IP Broadband Subscribers**

IN MILLIONS



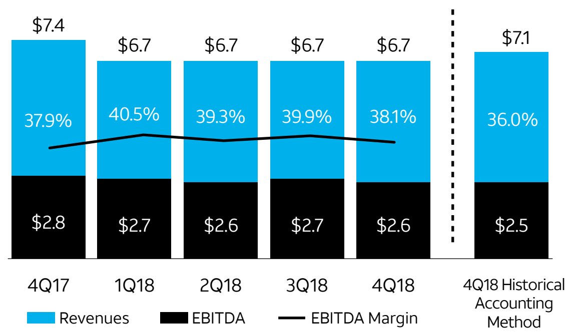

The company continues its fiber deployment. AT&T now markets its 100% fiber network to more than 11 million customer locations in parts of 84 metro areas. Broadband penetration in the fiber footprint continues to be significantly higher than in AT&T's non-fiber footprint and is nearly 50% in locations marketed to for more than 30 months.

## BUSINESS WIRELINE

In Business Wireline, declines in legacy products were partially offset by growth in strategic business services. Total business wireline revenues were $6.7 billion, down 8.9% year over year, or down 4.2% on a comparable basis.

**Business Wireline Revenues & EBITDA Margin**

IN BILLIONS




- Fourth-quarter operating expenses were $5.4 billion, down 7.3%, or down 1.0% on a comparative basis, versus the fourth quarter of 2017. Operating income totaled $1.4 billion, down 14.5%, or down 15.9% on a comparative basis, with IP revenue growth and cost efficiencies partially offsetting declines in legacy services.
- Fourth-quarter operating income margin was 20.2%, down from 21.5% in the year-ago quarter, or down 260 basis points on a comparative basis, with growth in IP revenues and increased cost efficiencies partially offsetting declines in legacy services.
- Strategic business services, the wireline capabilities that lead AT&T's most advanced business solutions, continued to grow. Revenues grew by about $75 million on a comparable basis, versus the year-earlier quarter. On a comparable basis, these services represent 44% of total business wireline revenues and are an annualized revenue stream of more than $12 billion. This growth helped offset a decline of about $463 million, on a comparable basis, in legacy services in the quarter.
- During the quarter, business wireline gained 2,000 high-speed IP broadband subscribers. Total business broadband subscribers were down 12,000.

# WarnerMedia

**WarnerMedia's Turner, Home Box Office and Warner Bros. business units are leaders in creating and delivering multiplatform content and services and collectively own a world-class library of entertainment content. Turner owns and operates a portfolio of popular networks and related businesses and brands across entertainment, sports, news and kids' entertainment. Home Box Office produces and delivers award-winning, premium video content across multiple platforms around the world. Warner Bros., a leader in global entertainment with one of the world's largest television and film studios, produces and distributes television programming, feature films and games. WarnerMedia also includes Otter Media and the results of AT&T's Regional Sports Networks (RSNs) in the Turner division.**

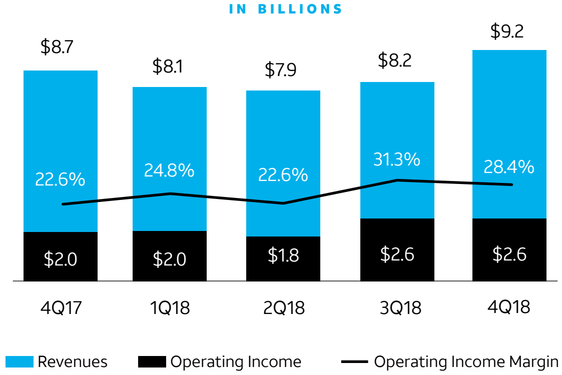
## FINANCIAL HIGHLIGHTS

*(Historical comparisons reflect historical Time Warner adjusted results and also include RSNs as recast in the WarnerMedia segment. Financial results of Otter Media are included in WarnerMedia consolidated results following AT&T's Aug. 7, 2018 acquisition of the remaining interest in Otter Media and the transfer of the ownership of Otter Media to WarnerMedia. Prior to this date, Otter Media was included as an equity-method investment of AT&T.)*

Total WarnerMedia revenues were $9.2 billion, up 5.9% year over year, primarily driven by higher Warner Bros. revenues, consolidation of Otter Media and higher affiliate subscription revenues at Turner.

**Revenues & Operating Income Margin**

IN BILLIONS




- Fourth-quarter operating expenses were $6.6 billion, down 2.1% versus the fourth quarter of 2017 primarily due to lower programming expenses at Turner and Home Box Office, partially offset by the consolidation of Otter Media. Operating expenses included $3.8 billion of programming and film and television production costs, down 1.2% compared to the year-ago quarter. Operating income totaled $2.6 billion, up 33.2% compared to the fourth quarter of 2017 due to double-digit gains at all three business units.
- Fourth-quarter operating income margin was 28.4% compared with 22.6% in the year-ago quarter.

## TURNER

Total Turner revenues were $3.2 billion, down slightly year over year due to a decline of 6.3% in advertising revenues, partially offset by an increase of 3.7% in subscription revenues. Advertising revenues decreased due to lower audience delivery at Turner's domestic entertainment networks and a decline in international advertising revenues, which were impacted by unfavorable foreign exchange rates. Subscription revenues benefited from higher domestic affiliate rates which were partially offset by a decline in international revenues, with growth at Turner's international networks more than offset by unfavorable foreign exchange rates.

- Fourth-quarter operating expenses were $1.9 billion, down 11.1% versus the fourth quarter of 2017, primarily reflecting lower programming expenses and marketing costs due to the timing of original series. Operating income totaled $1.3 billion, up 20.7%, reflecting a decline in expenses.
- Fourth-quarter operating income margin was 40.2% compared with 33.1% in the year-ago quarter.

## HOME BOX OFFICE

Total Home Box Office revenues were $1.7 billion, down 0.4% year over year due to a decline of 3.0% in subscription revenues, which was partially offset by an increase of 16.7% in content and other revenues. Subscription revenues and subscribers were unfavorably impacted by the carriage dispute with DISH, which began in November, but revenues benefited from higher domestic rates and international growth. Content and other revenues increased due to higher international licensing revenues.

- Fourth-quarter operating expenses were $1.1 billion, down 12.1% year over year, due to lower programming and distribution costs. Operating income totaled $622 million, up 28.5% due to a decrease in expenses.
- Fourth-quarter operating income margin was 37.2% compared with 28.8% in the year-ago quarter.

## WARNER BROS.

Total Warner Bros. revenues were $4.5 billion, up 10.4% year over year due to 29.3% growth in theatrical product revenues in addition to 3.9% growth in television product revenues. Theatrical product revenues increased primarily due to the performance of theatrical releases, including *Aquaman*, *Fantastic Beasts: The Crimes of Grindelwald* and *A Star is Born*, which also represented a more favorable mix and number of film titles compared to the prior year. Television product revenues increased primarily due to higher licensing of series and initial telecast revenues.

- Fourth-quarter operating expenses were $3.7 billion, up 3.6% versus the fourth quarter of 2017 primarily due to higher film and television production costs and higher print and advertising expenses related to the mix and higher number of films and produced series. Operating income increased 57.2%, driven by higher revenues which were partially offset by higher expenses.
- Fourth-quarter operating income margin was 18.1% compared with 12.7% in the year-ago quarter.

# SELECT RECENT & UPCOMING RELEASES IN Q1 2019

## TURNER

### Series

*Adam Ruins Everything* (S3, truTV): 1/8/19
*I'm Sorry* (S2, truTV): 1/9/19
*Drop the Mic* (S2, TNT): 1/23/19
*Full Frontal with Samantha Bee* (S4, TBS): 2/6/19
*Miracle Workers* (S1, TBS): 2/12/19
*Impractical Jokers* (S8, truTV): March
*Shatterbox* (S1, TNT): March

### Limited Series

*I Am the Night* (S1, TNT): 1/28/19

### Animated Series

*Tigtone* (S1, Adult Swim): 1/13/19
*Tropical Cop Tales* (S1, Adult Swim): 2/1/19
*Ben 10* (S3, Cartoon Network): February
*Victor & Valentino* (S1, Cartoon Network): March

### Docuseries

*American Style* (S1, CNN): 1/13/19
*Unmasking a Killer* (S1, HLN): 2/17/19
*American Dynasty: The Bushes* (S1, CNN): 3/3/19
*Tricky Dick* (S1, CNN): 3/3/19

### Specials

*Soft Focus with Jena Friedman 2* (Special, Adult Swim): 1/25/19
*Three Identical Strangers* (Film, CNN): 1/27/19[(1)]
*April Fool's* (Special, Adult Swim): 3/31/19

### Sports

NCAA® Division I Men's Basketball Tournament (TNT, TBS, truTV): March[(2)]

| Turner Networks | Key Demo |
|---|---|
| TNT | A25-54 |
| TBS | A18-49 |
| truTV | A18-49 |
| CNN | A25-54 |
| HLN | A25-54 |
| Boomerang | K2-11 |
| Cartoon Network | K2-11 |
| Adult Swim | A18-34 |

## HOME BOX OFFICE

### HBO Series

*Real Time with Bill Maher* (S17): 1/18/19
*Crashing* (S3): 1/20/19
*High Maintenance* (S3): 1/20/19
*Last Week Tonight with John Oliver* (S6): 2/17/19
*Barry* (S2): March
*VEEP* (S7): March

### HBO Limited Series

*True Detective* (S3): 1/13/19

### Cinemax Series

*Strike Back* (S6): 1/25/19

### HBO Comedy/Specials

*2 Dope Queens* (S2): 2/8/19

### HBO Film/Documentaries

*The Many Lives of Nick Buoniconti:* 2/12/19
*United Skates:* 2/18/19
*O.G.:* 2/23/19
*The Case Against Adnan Syed:* March
*The Inventor: Out for Blood in Silicon Valley:* March

### HBO Kids

*Esme & Roy* (S1): 2/2/19[(3)]

### HBO Sports

*Real Sports with Bryant Gumbel* (S25): 1/29/19

## WARNER BROS.

*Note: Warner Bros. is producing more than 70 series for the 2018-19 television season.*

### TV Production: Broadcast (Winter Premieres)

*The Bachelor* (23rd cycle, ABC): 1/7/19
*Ellen's Game of Games* (2nd cycle, NBC): 1/8/19
*Roswell, New Mexico* (S1, The CW): 1/15/19[(4)]
*The World's Best* (S1, CBS): 2/3/19
*The Voice* (16th cycle, NBC): 2/25/19
*Mental Samurai* (S1, FOX): 2/26/19
*Whiskey Cavalier* (S1, ABC): 2/27/19
*Million Dollar Mile* (1st cycle, CBS): 3/27/19

### TV Production: Cable/Pay/OTT (Winter Premieres)

*Young Justice: Outsiders* (S3, DC Universe): 1/4/19
*Doom Patrol* (S1, DC Universe): 2/15/19
*Shrill* (S1, Hulu): 3/15/19
*Pretty Little Liars: The Perfectionists* (S1, Freeform): 3/20/19

### Theatrical: Box Office[(5)]

*The LEGO Movie 2: The Second Part:* 2/8/19
*Isn't It Romantic:* 2/13/19

### Games

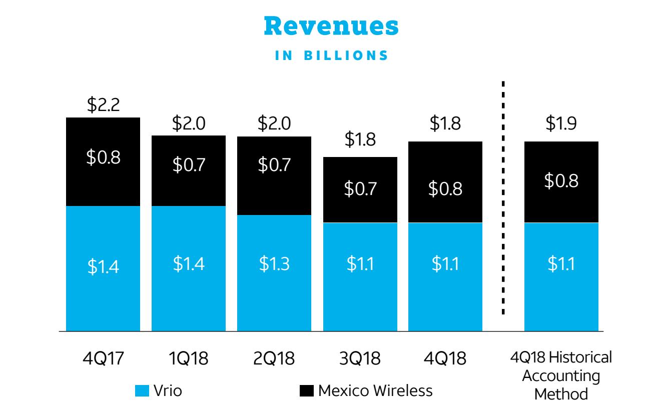
*The LEGO Movie 2 Videogame* (console): 2/26/19

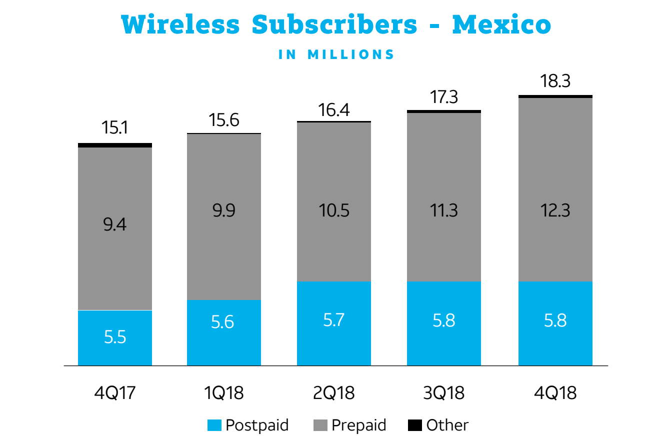
*Note: Represents a limited, select list of releases only. Premiere/release dates shown may be estimated and are subject to change. The 2018-19 broadcast television season runs September 2018 through August 2019. The Cable/Pay/OTT television season runs June 2018 through May 2019, based on air dates. (1)Licensed original (documentary); CNN Films has U.S. broadcast distribution rights. (2)Opening-, first- and second-round games of the NCAA Division I Men's Basketball Tournament ("NCAA Tournament") will be shown across TNT, TBS, truTV and CBS, with Turner and CBS splitting coverage of the regional semi-finals and finals. Turner will not be airing the NCAA Tournament's Final Four and Championship games in 2019, as coverage alternates between Turner and CBS each year. (3)Continuation of prior season. (4)Co-produced with CBS. (5)Domestic release dates shown.*

# Latin America

**The Latin America segment includes wireless services in Mexico and pay-TV entertainment services in Latin America under Vrio. AT&T is a leading provider of pay television services in Latin America with satellite operations serving Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, Venezuela and parts of the Caribbean. The company also owns 41% of Sky Mexico. Sky Mexico financial results are accounted for as an equity-method investment.**

Total Latin America revenues were $1.8 billion, down 16.8% from the year-ago quarter largely due to foreign exchange pressures from revenues in multiple currencies. On a comparable basis, revenues were $1.9 billion, down 16.4% year over year. Fourth-quarter operating expenses were $2.1 billion, and the same on a comparable basis. AT&T's Latin America operating loss totaled ($258) million, compared to a ($34) million loss in the year-ago fourth quarter. Fourth-quarter operating income margin was (14.0)%, or (15.1)% on a comparable basis.




## MEXICO

AT&T owns and operates a wireless network in Mexico. AT&T covered nearly 100 million people in Mexico with 4G LTE at the end of the fourth quarter.

- Revenues in Mexico were $769 million, down 6.7% versus the year-earlier quarter, primarily due to the shutdown of a wholesale business in the fourth quarter of 2017 and foreign exchange pressure which was partially offset by subscriber growth. On a comparable basis, revenues were down 5.6%. Service revenues were down approximately $60 million year over year due to the impact from the shutdown of a wholesale business in the fourth quarter of 2017.
- Mexico fourth-quarter operating loss was ($314) million and ($302) million on a comparable basis, with continued subscriber growth as well as higher depreciation, compared to a loss of ($169) million in the year-ago quarter.
- In the quarter, AT&T lost 17,000 postpaid subscribers and added 1 million prepaid subscribers to reach 18.3 million total wireless subscribers in Mexico. For the full year, the company added 3.2 million subscribers.

## VRIO

Vrio revenues reflect price increases driven by macroeconomic conditions with generally depreciating local currencies. Total Vrio revenues were $1.1 billion, down 22.8% year over year due primarily to foreign exchange pressures. Operating income was $56 million with continued positive cash flow for the year.

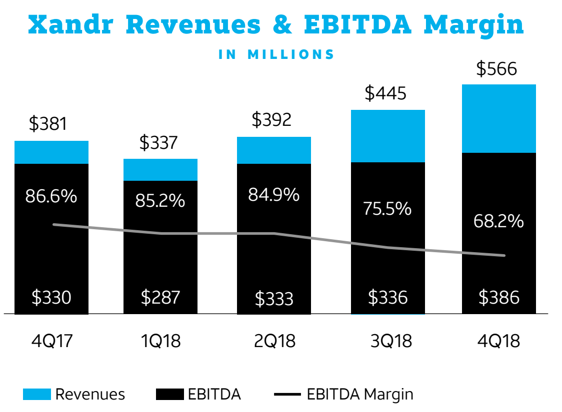
- Fourth-quarter subscriber net adds were 198,000 with gains in the South Region and Brazil. Total subscribers at the end of the quarter were 13.8 million. Sky Mexico had approximately 7.8 million subscribers as of September 30, 2018.

# Xandr

**Xandr is AT&T's new advertising and analytics company. It provides advertising services that use data insights to develop higher-value targeted advertising. The company aims to create a new option for advertisers and publishers to reach specific audiences at scale in trusted, premium content environments.**

## FINANCIAL HIGHLIGHTS

Xandr revenues include AdWorks revenues (*which are also reported in the Entertainment Group and are reconciled at the corporate level*) and AppNexus revenues. AppNexus was acquired on August 15, 2018. Total Xandr revenues were $566 million, up 48.6% year over year. Without AppNexus, revenues were up 26% year over year.




- Fourth-quarter operating expenses were $185 million, up $132 million versus the fourth quarter of 2017 due to higher costs associated with revenue growth and the acquisition of AppNexus. Operating income totaled $381 million, up 15.8% versus the fourth quarter of 2017 due to strong gains at AdWorks and the third-quarter 2018 acquisition of AppNexus.
- Fourth-quarter operating income margin was 67.3% compared with 86.4% in the year-ago quarter.

# Highlights

**AT&T is a diversified, global leader in telecommunications, media and entertainment, and technology.**

In recent weeks, AT&T:

## COMMUNICATIONS

### MOBILITY

- Introduced the first standards-based, mobile 5G network and device in parts of a dozen U.S. cities. AT&T plans to roll out mobile 5G in parts of at least 7 more cities in the first half of 2019.
- Introduced the world's first standards-based millimeter wave mobile 5G device, NETGEAR Nighthawk 5G Mobile Hotspot, on AT&T's mobile 5G+ network for early adopters.
- Extended 5G Evolution wireless technologies to reach 400+ markets. In the first half of 2019, the company plans to have nationwide 5G Evolution coverage. 5G Evolution technologies enable a peak theoretical wireless speed of at least 400Mbps for capable devices.[1]
- Brought LTE-LAA to 55 cities in 2018, exceeding the company's initial target to expand the availability of LTE-LAA technology to two dozen markets by the end of the year. LTE-LAA technologies enable a peak theoretical wireless speed of 1Gbps for capable devices.[1]
- Delivered a first-of-its-kind entertainment experience with the launch of the world's first holographic smartphone, RED HYDROGEN One.
- Brought Magic Leap to customers and creators through a *Fantastic Beasts: The Crimes of Grindelwald* demo on Magic Leap One Creator Edition and hosted developers, designers and creatives at an AT&T Hackathon focused on Magic Leap spatial computing. AT&T is on track to offer a DIRECTV NOW beta on Magic Leap One and bring 5G connectivity to the Magic Leap campus this year.

### ENTERTAINMENT

- Renewed AT&T's content agreement with Fox Networks Group and Fox TV Stations to give DIRECTV, DIRECTV NOW and U-verse subscribers more choice and better value while receiving Fox-owned local broadcast stations, regional sports networks, national networks and other programming services.
- Launched the first joint, large-scale marketing campaign with Warner Bros. since the AT&T-Time Warner merger closed, in celebration of *Fantastic Beasts: The Crimes of Grindelwald*, giving AT&T customers a chance to discover more magic throughout AT&T's online and retail destinations as well as through DIRECTV, the AT&T THANKS loyalty program and more.
- Launched millennial business news network, Cheddar, across DIRECTV, U-verse and DIRECTV NOW.
- Premiered the highly anticipated second season of *Loudermilk* on AUDIENCE Network. The series continues to be the highest-performing comedy program on the network.
- Expanded AT&T's 100% Fiber Network powered by AT&T Fiber to cover more than 11 million locations across parts of 84 metros nationwide — launching in 12 new metros in the 4th quarter. The company plans to reach at least 14 million locations across parts of at least 85 metro areas by mid-2019, laying the groundwork for the launch of 5G in key markets.
- Expanded high-speed internet access through technologies like Fixed Wireless Internet to 660,000 homes and small businesses in mostly rural areas across 18 states as part of the FCC Connect America Fund. The company plans to reach more than 1.1 million locations across those 18 states by the end of 2020.

[1]*Actual speeds are lower and will vary. See http://about.att.com/sites/broadband/performance for more information on wireless speeds.*

### BUSINESS

- Expanded AT&T's previously announced agreement with Magic Leap to include business solutions. The company's initial focus areas are on manufacturing, retail and healthcare. AT&T will provide connectivity over its 5G network for augmented reality, mixed reality and spatial computing applications.
- Extended AT&T's high-speed fiber network to nearly 500,000 U.S. business buildings covering nearly 2.2 million U.S. business customer locations.
- Announced a collaboration with KDDI and Toyota Motor North America to enable 4G LTE connectivity for select new model Toyota and Lexus vehicles in the U.S. from 2019 through 2024.
- Announced new Cradlepoint wireless router solutions for businesses and public safety agencies, exclusively on the AT&T network and FirstNet communications platform until March 1, 2019. These routers give AT&T and FirstNet users the fastest speeds possible today, with an upgradable path to 5G in the future.
- Added more than 50,000 square miles nationwide to the FirstNet LTE coverage area. AT&T has also deployed Band 14 spectrum in more than 500 markets, further increasing FirstNet coverage and capacity across the country — a significant benefit for the more than 5,250 public safety agencies using 425,000+ connections on FirstNet today.
- Launched ShakeAlert LA in collaboration with the City of Los Angeles and the United States Geological Survey. This unique mobile app is designed to alert residents in Los Angeles County of an earthquake, potentially notifying residents in the critical seconds before shaking reaches them.

## WARNERMEDIA

- Won 4 Golden Globe® Awards, with wins for Warner Bros.' *A Star is Born* and *The Kominsky Method* and HBO's *Sharp Objects*.
- Received 11 Academy Award® nominations, including 8 nominations for *A Star is Born*.
- Had 3 of the top 5 ad-supported cable networks — TNT, TBS and Adult Swim — in primetime among adults 18-49 for the full year.
- Continued to rank as the #1 leading digital news destination with CNN in terms of multiplatform unique visitors and video starts for the 12th and 15th consecutive quarter, respectively.
- Saw Warner Bros. films gross more than $5.5 billion in global box office receipts in 2018, making it the studio's biggest year ever, led by hits including *Ready Player One* and the fourth-quarter releases *Fantastic Beasts: The Crimes of Grindelwald* and *Aquaman*, the latter of which has grossed nearly $1.1 billion at the global box office to date.
- Announced plans to launch the WarnerMedia Innovation Lab, a future-forward incubator that will combine emerging technologies with content from across WarnerMedia's operating units to create new and innovative consumer experiences and businesses.

## LATIN AMERICA

### MEXICO

- Continued to deploy the company's network in the Mexico City Metro, announcing Line 2 as the fourth connected line. The Metro project was recognized by the Mexican Chamber of Electronics, Telecommunications and Information Technologies as one of Mexico's most innovative initiatives of 2018.
- Was recognized by Great Place To Work® as the #1 Company for Millennials across all industries in Mexico.

### VRIO

- Launched DIRECTV GO in its first two markets, Chile and Colombia. The new OTT service offers live programming, including local broadcasts; a variety of on-demand series and movies; ample coverage of international and national sports; and the option to subscribe to premium programming.
- Acquired broadcast rights for the South American Football Confederation (CONMEBOL) international competitions Copa CONMEBOL Sudamericana and Copa CONMEBOL Recopa through 2022 in Spanish-speaking Latin American countries and the Caribbean.

## XANDR

- Recognized as one of the hottest advertising technology companies by Business Insider.
- Released Xandr's first Relevance Report about consumers' changing content consumption habits and advertising engagement.

## FIRST-QUARTER 2019 EARNINGS DATE: APRIL 24, 2019

AT&T will release first-quarter 2019 earnings on April 24, 2019 before the market opens.

The company's Investor Briefing and related earnings materials will be available on the AT&T website at *https://investors.att.com* by 7:30 a.m. Eastern time.

AT&T will also host a conference call to discuss the results at 8:30 a.m. Eastern time the same day. Dial-in and replay information will be announced on First Call approximately 8 weeks before the call, which will also be broadcast live and will be available for replay over the internet at *https://investors.att.com*.

## CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this Investor Briefing contains financial estimates and other forward-looking statements that are subject to risks and uncertainties, and actual results may differ materially. A discussion of factors that may affect future results is contained in AT&T's filings with the Securities and Exchange Commission. AT&T disclaims any obligation to update or revise statements contained in this Investor Briefing based on new information or otherwise.

This Investor Briefing may contain certain non-GAAP financial measures. Reconciliations between the non-GAAP financial measures and the GAAP financial measures are included in the exhibits to the Investor Briefing and are available on the company's website at *https://investors.att.com*.

The "quiet period" for FCC Spectrum Auctions 101/102 (28Ghz and 24Ghz) is now in effect. During the quiet period, auction applicants are required to avoid discussions of bids, bidding strategy and post-auction market structure with other auction applicants.

## AT&T INVESTOR BRIEFING

The AT&T Investor Briefing is published by the Investor Relations staff of AT&T Inc. Requests for further information may be directed to one of the Investor Relations managers by phone at 210-351-3327.

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# Financial and Operational Information

## AT&T INC. FINANCIAL DATA

**Consolidated Statements of Income**

| *Dollars in millions except per share amounts* *Unaudited* | Fourth Quarter 2018 | Fourth Quarter 2017 As Adjusted | Percent Change | Year Ended 2018 | Year Ended 2017 As Adjusted | Percent Change |
|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | |
| Service | **$ 42,496** | $ 36,225 | 17.3 % | **$ 152,345** | $ 145,597 | 4.6 % |
| Equipment | **5,497** | 5,451 | 0.8 % | **18,411** | 14,949 | 23.2 % |
| **Total Operating Revenues** | **47,993** | 41,676 | 15.2 % | **170,756** | 160,546 | 6.4 % |
| **Operating Expenses** | | | | | | |
| Cost of revenues | | | | | | |
| Equipment | **5,733** | 6,532 | (12.2) % | **19,786** | 18,709 | 5.8 % |
| Broadcast, programming and operations | **8,885** | 6,003 | 48.0 % | **26,727** | 21,159 | 26.3 % |
| Other cost of revenues (exclusive of depreciation and amortization shown separately below) | **8,691** | 9,391 | (7.5) % | **32,906** | 37,942 | (13.3) % |
| Selling, general and administrative | **10,586** | 9,484 | 11.6 % | **36,765** | 35,465 | 3.7 % |
| Asset abandonment and impairments | **46** | 2,914 | (98.4) % | **46** | 2,914 | (98.4) % |
| Depreciation and amortization | **7,892** | 6,071 | 30.0 % | **28,430** | 24,387 | 16.6 % |
| **Total Operating Expenses** | **41,833** | 40,395 | 3.6 % | **144,660** | 140,576 | 2.9 % |
| **Operating Income** | **6,160** | 1,281 | - % | **26,096** | 19,970 | 30.7 % |
| **Interest Expense** | **(2,112)** | (1,926) | 9.7 % | **(7,957)** | (6,300) | 26.3 % |
| **Equity in Net Income (Loss) of Affiliates** | **23** | 20 | 15.0 % | **(48)** | (128) | 62.5 % |
| **Other Income (Expense) - Net** | **1,674** | (658) | - % | **6,782** | 1,597 | - % |
| **Income (Loss) Before Income Taxes** | **5,745** | (1,283) | - % | **24,873** | 15,139 | 64.3 % |
| **Income Tax (Benefit) Expense** | **615** | (20,419) | - % | **4,920** | (14,708) | - % |
| **Net Income** | **5,130** | 19,136 | (73.2) % | **19,953** | 29,847 | (33.1) % |
| **Less: Net Income Attributable to Noncontrolling Interest** | **(272)** | (99) | - % | **(583)** | (397) | (46.9) % |
| **Net Income Attributable to AT&T** | **$ 4,858** | $ 19,037 | (74.5) % | **$ 19,370** | $ 29,450 | (34.2) % |
| **Basic Earnings Per Share Attributable to AT&T** | **$ 0.66** | $ 3.08 | (78.6) % | **$ 2.85** | $ 4.77 | (40.3) % |
| Weighted Average Common Shares Outstanding (000,000) | **7,296** | 6,163 | 18.4 % | **6,778** | 6,164 | 10.0 % |
| **Diluted Earnings Per Share Attributable to AT&T** | **$ 0.66** | $ 3.08 | (78.6) % | **$ 2.85** | $ 4.76 | (40.1) % |
| Weighted Average Common Shares Outstanding with Dilution (000,000) | **7,328** | 6,182 | 18.5 % | **6,806** | 6,183 | 10.1 % |

## AT&T INC. FINANCIAL DATA

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

## AT&T INC. FINANCIAL DATA

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

## AT&T INC. CONSOLIDATED SUPPLEMENTARY DATA

**Supplementary Financial Data**

| *Dollars in millions except per share amounts*<br>*Unaudited* | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| Capital expenditures | | | | | | |
| Purchase of property and equipment | **$ 4,063** | $ 4,891 | (16.9) % | **$ 20,758** | $ 20,647 | 0.5 % |
| Interest during construction | **89** | 185 | (51.9) % | **493** | 903 | (45.4) % |
| Total Capital Expenditures | **$ 4,152** | $ 5,076 | (18.2) % | **$ 21,251** | $ 21,550 | (1.4) % |
| Dividends Declared per Share | **$ 0.51** | $ 0.50 | 2.0 % | **$ 2.01** | $ 1.97 | 2.0 % |
| End of Period Common Shares Outstanding (000,000) | | | | **7,282** | 6,139 | 18.6 % |
| Debt Ratio | | | | **47.7 %** | 53.6 % | (590) BP |
| Total Employees | | | | **268,220** | 254,000 | 5.6 % |

**Supplementary Operating Data**

| *Subscribers and connections in thousands*<br>*Unaudited* | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|
| **Wireless Subscribers** | | | |
| Domestic | **153,006** | 141,202 | 8.4 % |
| Mexico | **18,321** | 15,099 | 21.3 % |
| Total Wireless Subscribers | **171,327** | 156,301 | 9.6 % |
| **Total Branded Wireless Subscribers** | **111,958** | 107,740 | 3.9 % |
| **Video Connections** | | | |
| Domestic | **24,517** | 25,270 | (3.0) % |
| Latin America | **13,838** | 13,629 | 1.5 % |
| Total Video Connections | **38,355** | 38,899 | (1.4) % |
| **Broadband Connections** | | | |
| IP | **14,751** | 14,487 | 1.8 % |
| DSL | **950** | 1,232 | (22.9) % |
| Total Broadband Connections | **15,701** | 15,719 | (0.1) % |
| **Voice Connections** | | | |
| Network Access Lines | **10,002** | 11,753 | (14.9) % |
| U-verse VoIP Connections | **5,114** | 5,682 | (10.0) % |
| Total Retail Voice Connections | **15,116** | 17,435 | (13.3) % |

| | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Wireless Net Additions** | | | | | | |
| Domestic | **2,753** | 2,757 | (0.1) % | **11,810** | 9,474 | 24.7 % |
| Mexico | **1,016** | 1,320 | (23.0) % | **3,222** | 3,126 | 3.1 % |
| Total Wireless Net Additions | **3,769** | 4,077 | (7.6) % | **15,032** | 12,600 | 19.3 % |
| **Total Branded Wireless Net Additions** | **1,016** | 2,046 | (50.3) % | **4,367** | 4,858 | (10.1) % |
| **Video Net Additions** | | | | | | |
| Domestic | **(660)** | 159 | - % | **(753)** | (291) | - % |
| Latin America | **198** | 139 | 42.4 % | **250** | 42 | - % |
| Total Video Net Additions | **(462)** | 298 | - % | **(503)** | (249) | - % |
| **Broadband Net Additions** | | | | | | |
| IP | **7** | 103 | (93.2) % | **264** | 623 | (57.6) % |
| DSL | **(53)** | (99) | 46.5 % | **(282)** | (509) | 44.6 % |
| Total Broadband Net Additions | **(46)** | 4 | - % | **(18)** | 114 | - % |

## COMMUNICATIONS SEGMENT

The Communications segment provides wireless and wireline telecom, video and broadband services to consumers located in the U.S. or in U.S. territories and businesses globally. The Communications segment contains three reporting units: Mobility, Entertainment Group, and Business Wireline.

| Segment Results | | | | | | |
|---|---|---|---|---|---|---|
| *Dollars in millions* | | | | | | |
| *Unaudited* | Fourth Quarter | | Percent | Year Ended | | Percent |
| | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Segment Operating Revenues** | | | | | | |
| Mobility | **$ 18,769** | $ 19,168 | (2.1) % | **$ 71,344** | $ 71,090 | 0.4 % |
| Entertainment Group | **11,962** | 12,560 | (4.8) % | **46,460** | 49,995 | (7.1) % |
| Business Wireline | **6,727** | 7,382 | (8.9) % | **26,827** | 29,293 | (8.4) % |
| **Total Segment Operating Revenues** | **37,458** | 39,110 | (4.2) % | **144,631** | 150,378 | (3.8) % |
| **Segment Operating Contribution** | | | | | | |
| Mobility | **5,455** | 4,275 | 27.6 % | **21,722** | 20,204 | 7.5 % |
| Entertainment Group | **825** | 1,001 | (17.6) % | **4,713** | 5,471 | (13.9) % |
| Business Wireline | **1,359** | 1,588 | (14.4) % | **5,827** | 6,010 | (3.0) % |
| **Total Segment Operating Contribution** | **$ 7,639** | $ 6,864 | 11.3 % | **$ 32,262** | $ 31,685 | 1.8 % |

## MOBILITY

Mobility provides nationwide wireless service and equipment.

**Mobility Results**

*Dollars in millions*
*Unaudited*

| | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | |
| Service | **$ 13,859** | $ 14,282 | (3.0) % | **$ 54,933** | $ 57,696 | (4.8) % |
| Equipment | **4,910** | 4,886 | 0.5 % | **16,411** | 13,394 | 22.5 % |
| **Total Operating Revenues** | **18,769** | 19,168 | (2.1) % | **71,344** | 71,090 | 0.4 % |
| **Operating Expenses** | | | | | | |
| Operations and support | **11,246** | 12,866 | (12.6) % | **41,266** | 42,871 | (3.7) % |
| Depreciation and amortization | **2,068** | 2,027 | 2.0 % | **8,355** | 8,015 | 4.2 % |
| **Total Operating Expenses** | **13,314** | 14,893 | (10.6) % | **49,621** | 50,886 | (2.5) % |
| **Operating Income** | **5,455** | 4,275 | 27.6 % | **21,723** | 20,204 | 7.5 % |
| **Equity in Net Income (Loss) of Affiliates** | **-** | - | - % | **(1)** | - | - % |
| **Operating Contribution** | **$ 5,455** | $ 4,275 | 27.6 % | **$ 21,722** | $ 20,204 | 7.5 % |
| **Operating Income Margin** | **29.1 %** | 22.3 % | 680 BP | **30.4 %** | 28.4 % | 200 BP |

**Supplementary Operating Data**

*Subscribers and connections in thousands*
*Unaudited*

| | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|
| **Mobility Subscribers** | | | |
| Postpaid | **76,889** | 77,510 | (0.8) % |
| Prepaid | **17,000** | 15,335 | 10.9 % |
| Branded | **93,889** | 92,845 | 1.1 % |
| Reseller | **7,782** | 9,366 | (16.9) % |
| Connected Devices | **51,335** | 38,991 | 31.7 % |
| Total Mobility Subscribers | **153,006** | 141,202 | 8.4 % |

| | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Mobility Net Additions** | | | | | | |
| Postpaid | **13** | 558 | (97.7) % | **(97)** | 641 | - % |
| Prepaid | **26** | 140 | (81.4) % | **1,290** | 1,013 | 27.3 % |
| Branded | **39** | 698 | (94.4) % | **1,193** | 1,654 | (27.9) % |
| Reseller | **(438)** | (530) | 17.4 % | **(1,704)** | (1,871) | 8.9 % |
| Connected Devices | **3,152** | 2,589 | 21.7 % | **12,321** | 9,691 | 27.1 % |
| Total Mobility Net Additions | **2,753** | 2,757 | (0.1) % | **11,810** | 9,474 | 24.7 % |
| Branded Churn | **1.82 %** | 1.75 % | 7 BP | **1.67 %** | 1.68 % | (1) BP |
| Postpaid Churn | **1.24 %** | 1.11 % | 13 BP | **1.12 %** | 1.07 % | 5 BP |
| Postpaid Phone-Only Churn | **1.00 %** | 0.89 % | 11 BP | **0.90 %** | 0.85 % | 5 BP |

## ENTERTAINMENT GROUP

Entertainment Group provides video, including over-the-top (OTT) services, broadband and voice communication services primarily to residential customers. This business unit also sells advertising on DIRECTV and U-verse distribution platforms.

**Entertainment Group Results**

| *Dollars in millions* *Unaudited* | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | |
| Video entertainment | **$ 8,676** | $ 9,200 | (5.7) % | **$ 33,357** | $ 36,167 | (7.8) % |
| High-speed internet | **2,052** | 1,890 | 8.6 % | **7,956** | 7,674 | 3.7 % |
| Legacy voice and data services | **724** | 878 | (17.5) % | **3,041** | 3,767 | (19.3) % |
| Other service and equipment | **510** | 592 | (13.9) % | **2,106** | 2,387 | (11.8) % |
| **Total Operating Revenues** | **11,962** | 12,560 | (4.8) % | **46,460** | 49,995 | (7.1) % |
| **Operating Expenses** | | | | | | |
| Operations and support | **9,807** | 10,192 | (3.8) % | **36,430** | 38,903 | (6.4) % |
| Depreciation and amortization | **1,329** | 1,367 | (2.8) % | **5,315** | 5,621 | (5.4) % |
| **Total Operating Expenses** | **11,136** | 11,559 | (3.7) % | **41,745** | 44,524 | (6.2) % |
| **Operating Income** | **826** | 1,001 | (17.5) % | **4,715** | 5,471 | (13.8) % |
| **Equity in Net Income (Loss) of Affiliates** | **(1)** | - | - % | **(2)** | - | - % |
| **Operating Contribution** | **$ 825** | $ 1,001 | (17.6) % | **$ 4,713** | $ 5,471 | (13.9) % |
| **Operating Income Margin** | **6.9 %** | 8.0 % | (110) BP | **10.1 %** | 10.9 % | (80) BP |

**Supplementary Operating Data**

| *Subscribers and connections in thousands* *Unaudited* | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|
| **Video Connections** | | | |
| Satellite | **19,222** | 20,458 | (6.0) % |
| U-verse | **3,681** | 3,631 | 1.4 % |
| DIRECTV NOW | **1,591** | 1,155 | 37.7 % |
| Total Video Connections | **24,494** | 25,244 | (3.0) % |
| **Broadband Connections** | | | |
| IP | **13,729** | 13,462 | 2.0 % |
| DSL | **680** | 888 | (23.4) % |
| Total Broadband Connections | **14,409** | 14,350 | 0.4 % |
| **Voice Connections** | | | |
| Retail Consumer Switched Access Lines | **3,967** | 4,774 | (16.9) % |
| U-verse Consumer VoIP Connections | **4,582** | 5,222 | (12.3) % |
| Total Retail Consumer Voice Connections | **8,549** | 9,996 | (14.5) % |

| | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Video Net Additions**[1] | | | | | | |
| Satellite | **(403)** | (147) | - % | **(1,236)** | (554) | - % |
| U-verse | **12** | (60) | - % | **50** | (622) | - % |
| DIRECTV NOW | **(267)** | 368 | - % | **436** | 888 | (50.9) % |
| Total Video Net Additions | **(658)** | 161 | - % | **(750)** | (288) | - % |
| **Broadband Net Additions** | | | | | | |
| IP | **6** | 95 | (93.7) % | **267** | 574 | (53.5) % |
| DSL | **(38)** | (76) | 50.0 % | **(208)** | (403) | 48.4 % |
| Total Broadband Net Additions | **(32)** | 19 | - % | **59** | 171 | (65.5) % |

[1] Includes the impact of customers that migrated to DIRECTV NOW.

## BUSINESS WIRELINE

Business Wireline unit provides advanced IP-based services, as well as traditional data services to business customers.

| Business Wireline Results | | | | | | |
|---|---|---|---|---|---|---|
| *Dollars in millions* | | | | | | |
| *Unaudited* | Fourth Quarter | | Percent | Year Ended | | Percent |
| | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Operating Revenues** | | | | | | |
| Strategic services | **$ 3,142** | $ 3,070 | 2.3 % | **$ 12,310** | $ 11,950 | 3.0 % |
| Legacy voice and data services | **2,521** | 3,251 | (22.5) % | **10,697** | 13,565 | (21.1) % |
| Other service and equipment | **1,064** | 1,061 | 0.3 % | **3,820** | 3,778 | 1.1 % |
| **Total Operating Revenues** | **6,727** | 7,382 | (8.9) % | **26,827** | 29,293 | (8.4) % |
| **Operating Expenses** | | | | | | |
| Operations and support | **4,161** | 4,586 | (9.3) % | **16,245** | 18,492 | (12.2) % |
| Depreciation and amortization | **1,207** | 1,206 | 0.1 % | **4,754** | 4,789 | (0.7) % |
| **Total Operating Expenses** | **5,368** | 5,792 | (7.3) % | **20,999** | 23,281 | (9.8) % |
| **Operating Income** | **1,359** | 1,590 | (14.5) % | **5,828** | 6,012 | (3.1) % |
| **Equity in Net Income (Loss) of Affiliates** | **-** | (2) | - % | **(1)** | (2) | 50.0 % |
| **Operating Contribution** | **$ 1,359** | $ 1,588 | (14.4) % | **$ 5,827** | $ 6,010 | (3.0) % |
| **Operating Income Margin** | **20.2 %** | 21.5 % | (130) BP | **21.7 %** | 20.5 % | 120 BP |

## BUSINESS SOLUTIONS

As a supplemental presentation to our Communications segment operating results, we are providing a view of our AT&T Business Solutions results which includes both wireless and fixed operations. This combined view presents a complete profile of the entire business customer relationship, and underscores the importance of mobile solutions to serving our business customers.

| Business Solutions Results | | | | | | |
|---|---|---|---|---|---|---|
| *Dollars in millions* | | | | | | |
| *Unaudited* | Fourth Quarter | | Percent | Year Ended | | Percent |
| | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Operating Revenues** | | | | | | |
| Wireless service | **$ 1,900** | $ 1,979 | (4.0) % | **$ 7,397** | $ 8,009 | (7.6) % |
| Strategic services | **3,142** | 3,070 | 2.3 % | **12,310** | 11,950 | 3.0 % |
| Legacy voice and data services | **2,521** | 3,251 | (22.5) % | **10,697** | 13,565 | (21.1) % |
| Other service and equipment | **1,064** | 1,061 | 0.3 % | **3,820** | 3,778 | 1.1 % |
| Wireless equipment | **780** | 564 | 38.3 % | **2,532** | 1,552 | 63.1 % |
| **Total Operating Revenues** | **9,407** | 9,925 | (5.2) % | **36,756** | 38,854 | (5.4) % |
| **Operating Expenses** | | | | | | |
| Operations and support | **5,911** | 6,349 | (6.9) % | **22,719** | 24,496 | (7.3) % |
| Depreciation and amortization | **1,507** | 1,492 | 1.0 % | **5,951** | 5,901 | 0.8 % |
| **Total Operating Expenses** | **7,418** | 7,841 | (5.4) % | **28,670** | 30,397 | (5.7) % |
| **Operating Income** | **1,989** | 2,084 | (4.6) % | **8,086** | 8,457 | (4.4) % |
| **Equity in Net Income (Loss) of Affiliates** | **-** | (1) | - % | **(1)** | (1) | - % |
| **Operating Contribution** | **$ 1,989** | $ 2,083 | (4.5) % | **$ 8,085** | $ 8,456 | (4.4) % |
| **Operating Income Margin** | **21.1 %** | 21.0 % | 10 BP | **22.0 %** | 21.8 % | 20 BP |

## WARNERMEDIA SEGMENT

The WarnerMedia segment develops, produces and distributes feature films, television, gaming and other content in various physical and digital formats globally. Results from AT&T's Regional Sports Network (RSN) and Otter Media Holdings are also included in the WarnerMedia segment. The WarnerMedia segment contains three business units: Turner, Home Box Office, and Warner Bros.

**Segment Results**

| *Dollars in millions*<br>*Unaudited* | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Segment Operating Revenues** | | | | | | |
| Turner | **$ 3,212** | $ 107 | - % | **$ 6,979** | $ 430 | - % |
| Home Box Office | **1,673** | - | - % | **3,598** | - | - % |
| Warner Bros. | **4,476** | - | - % | **8,703** | - | - % |
| Eliminations and other | **(129)** | - | - % | **(339)** | - | - % |
| **Total Segment Operating Revenues** | **9,232** | 107 | - % | **18,941** | 430 | - % |
| | | | | | | |
| **Segment Operating Contribution** | | | | | | |
| Turner | **1,306** | 61 | - % | **3,108** | 140 | - % |
| Home Box Office | **650** | - | - % | **1,384** | - | - % |
| Warner Bros. | **807** | - | - % | **1,449** | - | - % |
| Eliminations and other | **(60)** | (20) | - % | **(246)** | (78) | - % |
| **Total Segment Operating Contribution** | **$ 2,703** | $ 41 | - % | **$ 5,695** | $ 62 | - % |

## TURNER

Turner is comprised of the WarnerMedia businesses managed by Turner as well as our RSN. This business unit creates and programs branded news, entertainment, sports and kids multiplatform content that is sold to various distribution affiliates. Turner also sells advertising on its networks and digital properties.

**Turner Results**

| *Dollars in millions*<br>*Unaudited* | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | |
| Subscription | **$ 1,844** | $ 94 | - % | **$ 4,207** | $ 365 | - % |
| Advertising | **1,149** | 13 | - % | **2,330** | 65 | - % |
| Content and other | **219** | - | - % | **442** | - | - % |
| **Total Operating Revenues** | **3,212** | 107 | - % | **6,979** | 430 | - % |
| | | | | | | |
| **Operating Expenses** | | | | | | |
| Operations and support | **1,861** | 58 | - % | **3,794** | 331 | - % |
| Depreciation and amortization | **60** | 1 | - % | **131** | 4 | - % |
| **Total Operating Expenses** | **1,921** | 59 | - % | **3,925** | 335 | - % |
| **Operating Income** | **1,291** | 48 | - % | **3,054** | 95 | - % |
| **Equity in Net Income of Affiliates** | **15** | 13 | 15.4 % | **54** | 45 | 20.0 % |
| **Operating Contribution** | **$ 1,306** | $ 61 | - % | **$ 3,108** | $ 140 | - % |
| | | | | | | |
| **Operating Income Margin** | **40.2 %** | 44.9 % | (470) BP | **43.8 %** | 22.1 % | 2,170 BP |

## HOME BOX OFFICE

Home Box Office consists of premium pay television and OTT services domestically and premium pay, basic tier television and OTT services internationally, as well as content licensing and home entertainment.

| Home Box Office Results | | | | | | |
|---|---|---|---|---|---|---|
| *Dollars in millions* | | | | | | |
| *Unaudited* | Fourth Quarter | | Percent | Year Ended | | Percent |
| | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Operating Revenues** | | | | | | |
| Subscription | **$ 1,414** | $ - | - % | **$ 3,201** | $ - | - % |
| Content and other | **259** | - | - % | **397** | - | - % |
| **Total Operating Revenues** | **1,673** | - | - % | **3,598** | - | - % |
| | | | | | | |
| **Operating Expenses** | | | | | | |
| Operations and support | **1,025** | - | - % | **2,187** | - | - % |
| Depreciation and amortization | **26** | - | - % | **56** | - | - % |
| **Total Operating Expenses** | **1,051** | - | - % | **2,243** | - | - % |
| **Operating Income** | **622** | - | - % | **1,355** | - | - % |
| **Equity in Net Income of Affiliates** | **28** | - | - % | **29** | - | - % |
| **Operating Contribution** | **$ 650** | $ - | - % | **$ 1,384** | $ - | - % |
| | | | | | | |
| **Operating Income Margin** | **37.2 %** | - % | - BP | **37.7 %** | - % | - BP |

## WARNER BROS.

Warner Bros. consists of the production, distribution and licensing of television programming and feature films, the distribution of home entertainment products and the production and distribution of games.

| Warner Bros. Results | | | | | | |
|---|---|---|---|---|---|---|
| *Dollars in millions* | | | | | | |
| *Unaudited* | Fourth Quarter | | Percent | Year Ended | | Percent |
| | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Operating Revenues** | | | | | | |
| Theatrical product | **$ 2,085** | $ - | - % | **$ 4,002** | $ - | - % |
| Television product | **1,827** | - | - % | **3,621** | - | - % |
| Video games and other | **564** | - | - % | **1,080** | - | - % |
| **Total Operating Revenues** | **4,476** | - | - % | **8,703** | - | - % |
| | | | | | | |
| **Operating Expenses** | | | | | | |
| Operations and support | **3,623** | - | - % | **7,130** | - | - % |
| Depreciation and amortization | **42** | - | - % | **96** | - | - % |
| **Total Operating Expenses** | **3,665** | - | - % | **7,226** | - | - % |
| **Operating Income** | **811** | - | - % | **1,477** | - | - % |
| **Equity in Net Income (Loss) of Affiliates** | **(4)** | - | - % | **(28)** | - | - % |
| **Operating Contribution** | **$ 807** | $ - | - % | **$ 1,449** | $ - | - % |
| | | | | | | |
| **Operating Income Margin** | **18.1 %** | - % | - BP | **17.0 %** | - % | - BP |

## LATIN AMERICA SEGMENT

The Latin America segment provides entertainment and wireless service outside of the U.S. Our internationalsubsidiaries conduct business in their local currency and operating results are converted to U.S. dollars usinG official exchange rates. The Latin America segment contains two business units: Vrio and Mexico.

**Segment Results**

| *Dollars in millions* *Unaudited* | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Segment Operating Revenues** | | | | | | |
| Vrio | **$ 1,074** | $ 1,391 | (22.8) % | **$ 4,784** | $ 5,456 | (12.3) % |
| Mexico | **769** | 824 | (6.7) % | **2,868** | 2,813 | 2.0 % |
| **Total Segment Operating Revenues** | **1,843** | 2,215 | (16.8) % | **7,652** | 8,269 | (7.5) % |
| **Segment Operating Contribution** | | | | | | |
| Vrio | **66** | 160 | (58.8) % | **347** | 522 | (33.5) % |
| Mexico | **(314)** | (169) | (85.8) % | **(1,057)** | (788) | (34.1) % |
| **Total Segment Operating Contribution** | **$ (248)** | $ (9) | - % | **$ (710)** | $ (266) | - % |

## VRIO

Vrio provides entertainment services to customers utilizing satellite technology in Latin America and the Caribbean.

**Vrio Results**

| *Dollars in millions* *Unaudited* | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Operating Revenues** | **$ 1,074** | $ 1,391 | (22.8) % | **$ 4,784** | $ 5,456 | (12.3) % |
| **Operating Expenses** | | | | | | |
| Operations and support | **849** | 1,049 | (19.1) % | **3,743** | 4,172 | (10.3) % |
| Depreciation and amortization | **169** | 207 | (18.4) % | **728** | 849 | (14.3) % |
| **Total Operating Expenses** | **1,018** | 1,256 | (18.9) % | **4,471** | 5,021 | (11.0) % |
| **Operating Income** | **56** | 135 | (58.5) % | **313** | 435 | (28.0) % |
| **Equity in Net Income of Affiliates** | **10** | 25 | (60.0) % | **34** | 87 | (60.9) % |
| **Operating Contribution** | **$ 66** | $ 160 | (58.8) % | **$ 347** | $ 522 | (33.5) % |
| **Operating Income Margin** | **5.2 %** | 9.7 % | (450) BP | **6.5 %** | 8.0 % | (150) BP |

**Supplementary Operating Data**

| *Subscribers and connections in thousands* *Unaudited* | Fourth Quarter 2018 | Fourth Quarter 2017 | Percent Change | Year Ended 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Vrio Satellite Subscribers** | | | | **13,838** | 13,629 | 1.5 % |
| | | | | **2,018** | 2,017 | |
| **Vrio Satellite Net Subscriber Additions** | **198** | 139 | 42.4 % | **250** | 42 | - % |

## MEXICO

Mexico provides wireless services and equipment to customers in Mexico.

**Mexico Results**

| *Dollars in millions* *Unaudited* | Fourth Quarter **2018** | Fourth Quarter 2017 | Percent Change | Year Ended **2018** | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | |
| Wireless service | **$ 440** | $ 501 | (12.2) % | **$ 1,701** | $ 2,047 | (16.9) % |
| Wireless equipment | **329** | 323 | 1.9 % | **1,167** | 766 | 52.3 % |
| **Total Operating Revenues** | **769** | 824 | (6.7) % | **2,868** | 2,813 | 2.0 % |
| **Operating Expenses** | | | | | | |
| Operations and support | **956** | 887 | 7.8 % | **3,415** | 3,232 | 5.7 % |
| Depreciation and amortization | **127** | 106 | 19.8 % | **510** | 369 | 38.2 % |
| **Total Operating Expenses** | **1,083** | 993 | 9.1 % | **3,925** | 3,601 | 9.0 % |
| **Operating Income (Loss)** | **(314)** | (169) | (85.8) % | **(1,057)** | (788) | (34.1) % |
| **Operating Contribution** | **$ (314)** | $ (169) | (85.8) % | **$ (1,057)** | $ (788) | (34.1) % |
| **Operating Income Margin** | **(40.8) %** | (20.5) % | (2,030) BP | **(36.9) %** | (28.0) % | (890) BP |

**Supplementary Operating Data**

| *Subscribers and connections in thousands* *Unaudited* | Year Ended **2018** | Year Ended 2017 | Percent Change |
|---|---|---|---|
| **Mexico Wireless Subscribers** | | | |
| Postpaid | **5,805** | 5,498 | 5.6 % |
| Prepaid | **12,264** | 9,397 | 30.5 % |
| Branded | **18,069** | 14,895 | 21.3 % |
| Reseller | **252** | 204 | 23.5 % |
| Total Mexico Wireless Subscribers | **18,321** | 15,099 | 21.3 % |

| | Fourth Quarter **2018** | Fourth Quarter 2017 | Percent Change | Year Ended **2018** | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|---|
| **Mexico Wireless Net Additions** | | | | | | |
| Postpaid | **(17)** | 182 | - % | **307** | 533 | (42.4) % |
| Prepaid | **994** | 1,165 | (14.7) % | **2,867** | 2,670 | 7.4 % |
| Branded | **977** | 1,347 | (27.5) % | **3,174** | 3,203 | (0.9) % |
| Reseller | **39** | (27) | - % | **48** | (77) | - % |
| Total Mexico Wireless Net Subscriber Additions | **1,016** | 1,320 | (23.0) % | **3,222** | 3,126 | 3.1 % |

## XANDR SEGMENT

The Xandr segment provides advertising services. These services utilize data insights to develop higher value targeted advertising. Certain revenues in this segment are also reported by the Communications segment and are eliminated upon consolidation.

| Segment Operating Results | | | | | | |
|---|---|---|---|---|---|---|
| *Dollars in millions* | | | | | | |
| *Unaudited* | Fourth Quarter | | Percent | Year Ended | | Percent |
| | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Segment Operating Revenues** | **$ 566** | $ 381 | 48.6 % | **$ 1,740** | $ 1,373 | 26.7 % |
| **Segment Operating Expenses** | | | | | | |
| Operations and support | **180** | 51 | - % | **398** | 169 | - % |
| Depreciation and amortization | **5** | 1 | - % | **9** | 2 | - % |
| **Total Segment Operating Expenses** | **185** | 52 | - % | **407** | 171 | - % |
| **Operating Income** | **381** | 329 | 15.8 % | **1,333** | 1,202 | 10.9 % |
| **Segment Operating Contribution** | **$ 381** | $ 329 | 15.8 % | **$ 1,333** | $ 1,202 | 10.9 % |
| **Segment Operating Income Margin** | **67.3 %** | 86.4 % | (1,910) BP | **76.6 %** | 87.5 % | (1,090) BP |

## SUPPLEMENTAL AT&T ADVERTISING REVENUES

As a supplemental presentation to our Xandr segment operating results, we are providing a view of total advertising revenues generated by AT&T, which combines the advertising revenues recorded across all operating segments. This combined view presents the entire portfolio of revenues generated from AT&T assets and represents a significant strategic initiative and growth opportunity for AT&T.

| Advertising Revenues | | | | | | |
|---|---|---|---|---|---|---|
| *Dollars in millions* | | | | | | |
| *Unaudited* | Fourth Quarter | | Percent | Year Ended | | Percent |
| | **2018** | 2017 | Change | **2018** | 2017 | Change |
| **Operating Revenues** | | | | | | |
| WarnerMedia | **$ 1,239** | $ 13 | - % | **$ 2,461** | $ 65 | - % |
| Communications | **543** | 420 | 29.3 % | **1,827** | 1,513 | 20.8 % |
| Xandr | **566** | 381 | 48.6 % | **1,740** | 1,373 | 26.7 % |
| Eliminations | **(473)** | (377) | (25.5) % | **(1,595)** | (1,357) | (17.5) % |
| **Total Advertising Revenues** | **$ 1,875** | $ 437 | - % | **$ 4,433** | $ 1,594 | - % |

## SUPPLEMENTAL SEGMENT RECONCILIATION

Three Months Ended

*Dollars in millions*
*Unaudited*

***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 | $ 18,769 | $ 11,246 | $ 7,523 | $ 2,068 | $ 5,455 | $ - | $ 5,455 |
| Entertainment Group | 11,962 | 9,807 | 2,155 | 1,329 | 826 | (1) | 825 |
| Business Wireline | 6,727 | 4,161 | 2,566 | 1,207 | 1,359 | - | 1,359 |
| Total Communications | 37,458 | 25,214 | 12,244 | 4,604 | 7,640 | (1) | 7,639 |
| **WarnerMedia** | | | | | | | |
| Turner | 3,212 | 1,861 | 1,351 | 60 | 1,291 | 15 | 1,306 |
| Home Box Office | 1,673 | 1,025 | 648 | 26 | 622 | 28 | 650 |
| Warner Bros. | 4,476 | 3,623 | 853 | 42 | 811 | (4) | 807 |
| Other | (129) | (39) | (90) | 11 | (101) | 41 | (60) |
| Total WarnerMedia | 9,232 | 6,470 | 2,762 | 139 | 2,623 | 80 | 2,703 |
| **Latin America** | | | | | | | |
| Vrio | 1,074 | 849 | 225 | 169 | 56 | 10 | 66 |
| Mexico | 769 | 956 | (187) | 127 | (314) | - | (314) |
| Total Latin America | 1,843 | 1,805 | 38 | 296 | (258) | 10 | (248) |
| **Xandr** | 566 | 180 | 386 | 5 | 381 | - | 381 |
| Segment Total | 49,099 | 33,669 | 15,430 | 5,044 | 10,386 | 89 | 10,475 |
| Corporate and Other | | | | | | | |
| Corporate | 279 | 252 | 27 | 560 | (533) | | |
| Acquisition-related items | (49) | 435 | (484) | 2,262 | (2,746) | | |
| Certain significant items | - | 492 | (492) | 26 | (518) | | |
| Eliminations and consolidations | (1,336) | (907) | (429) | - | (429) | | |
| AT&T Inc. | $ 47,993 | $ 33,941 | $ 14,052 | $ 7,892 | $ 6,160 | | |

*December 31, 2017*

| | Revenues | Operations and Support Expenses | EBITDA | Depreciation and Amortization | Operating Income (Loss) | Equity in Net Income (Loss) of Affiliates | Segment Contribution |
|---|---|---|---|---|---|---|---|
| **Communications** | | | | | | | |
| Mobility | $ 19,168 | $ 12,866 | $ 6,302 | $ 2,027 | $ 4,275 | $ - | $ 4,275 |
| Entertainment Group | 12,560 | 10,192 | 2,368 | 1,367 | 1,001 | - | 1,001 |
| Business Wireline | 7,382 | 4,586 | 2,796 | 1,206 | 1,590 | (2) | 1,588 |
| Total Communications | 39,110 | 27,644 | 11,466 | 4,600 | 6,866 | (2) | 6,864 |
| **WarnerMedia** | | | | | | | |
| Turner | 107 | 58 | 49 | 1 | 48 | 13 | 61 |
| Home Box Office | - | - | - | - | - | - | - |
| Warner Bros. | - | - | - | - | - | - | - |
| Other | - | 1 | (1) | - | (1) | (19) | (20) |
| Total WarnerMedia | 107 | 59 | 48 | 1 | 47 | (6) | 41 |
| **Latin America** | | | | | | | |
| Vrio | 1,391 | 1,049 | 342 | 207 | 135 | 25 | 160 |
| Mexico | 824 | 887 | (63) | 106 | (169) | - | (169) |
| Total Latin America | 2,215 | 1,936 | 279 | 313 | (34) | 25 | (9) |
| **Xandr** | 381 | 51 | 330 | 1 | 329 | - | 329 |
| Segment Total | 41,813 | 29,690 | 12,123 | 4,915 | 7,208 | 17 | 7,225 |
| Corporate and Other | | | | | | | |
| Corporate | 340 | 866 | (526) | 24 | (550) | | |
| Acquisition-related items | - | 176 | (176) | 1,100 | (1,276) | | |
| Certain significant items | (154) | 3,578 | (3,732) | 32 | (3,764) | | |
| Eliminations and consolidations | (323) | 14 | (337) | - | (337) | | |
| AT&T Inc. | $ 41,676 | $ 34,324 | $ 7,352 | $ 6,071 | $ 1,281 | | |

## SUPPLEMENTAL SEGMENT RECONCILIATION

**Twelve Months Ended**

*Dollars in millions*
*Unaudited*

***December 31, 2018***

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

*December 31, 2017*

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

As a supplemental discussion of our operating results, we are providing results under the comparative historical accounting method prior to our adoption of ASC 606 and other accounting changes.

## SUPPLEMENTAL INCOME STATEMENT

**Supplemental Consolidated Statements of Income**

*Dollars in millions except per share amounts*
*Unaudited*

| | Fourth Quarter | | | | |
|---|---|---|---|---|---|
| | **2018** | Accounting Impact | **Historical 2018** | 2017 | Percent Change |
| **Operating Revenues** | | | | | |
| Service | **$ 42,496** | $ (1,435) | **$ 43,931** | $ 36,225 | 21.3 % |
| Equipment | **5,497** | 571 | **4,926** | 5,451 | (9.6) % |
| **Total Operating Revenues** | **47,993** | (864) | **48,857** | 41,676 | 17.2 % |
| **Operating Expenses** | | | | | |
| Cost of revenues | | | | | |
| Equipment | **5,733** | - | **5,733** | 6,532 | (12.2) % |
| Broadcast, programming and operations | **8,885** | - | **8,885** | 6,003 | 48.0 % |
| Other cost of revenues (exclusive of depreciation and amortization shown separately below) | **8,691** | (981) | **9,672** | 9,391 | 3.0 % |
| Selling, general and administrative | **10,586** | (466) | **11,052** | 9,484 | 16.5 % |
| Asset abandonments and impairments | **46** | - | **46** | 2,914 | (98.4) % |
| Depreciation and amortization | **7,892** | - | **7,892** | 6,071 | 30.0 % |
| **Total Operating Expenses** | **41,833** | (1,447) | **43,280** | 40,395 | 7.1 % |
| **Operating Income** | **6,160** | 583 | **5,577** | 1,281 | - % |
| **Interest Expense** | **(2,112)** | - | **(2,112)** | (1,926) | 9.7 % |
| **Equity in Net Income (Loss) of Affiliates** | **23** | - | **23** | 20 | 15.0 % |
| **Other Income (Expense) - Net** | **1,674** | - | **1,674** | (658) | - % |
| **Income (Loss) Before Income Taxes** | **5,745** | 583 | **5,162** | (1,283) | - % |
| **Income Tax (Benefit) Expense** | **615** | 143 | **472** | (20,419) | - % |
| **Net Income** | **5,130** | 440 | **4,690** | 19,136 | (75.5) % |
| **Less: Net Income Attributable to Noncontrolling Interest** | **(272)** | (6) | **(266)** | (99) | - % |
| **Net Income Attributable to AT&T** | **$ 4,858** | $ 434 | **$ 4,424** | $ 19,037 | (76.8) % |
| **Basic Earnings Per Share Attributable to AT&T** | **$ 0.66** | $ 0.05 | **$ 0.61** | $ 3.08 | (80.2) % |
| Weighted Average Common Shares Outstanding (000,000) | **7,296** | - | **7,296** | 6,163 | 18.4 % |
| **Diluted Earnings Per Share Attributable to AT&T** | **$ 0.66** | $ 0.05 | **$ 0.61** | $ 3.08 | (80.2) % |
| Weighted Average Common Shares Outstanding with Dilution (000,000) | **7,328** | - | **7,328** | 6,182 | 18.5 % |

## SUPPLEMENTAL MOBILITY

| Supplemental Results | | | | | |
|---|---|---|---|---|---|
| *Dollars in millions* | | | | | |
| *Unaudited* | Fourth Quarter | | | | |
| | **2018** | Accounting Impact | **Historical 2018** | 2017 | Percent Change |
| **Operating Revenues** | | | | | |
| Service | **$ 13,859** | $ (840) | **$ 14,699** | $ 14,282 | 2.9 % |
| Equipment | **4,910** | 555 | **4,355** | 4,886 | (10.9) % |
| **Total Operating Revenues** | **18,769** | (285) | **19,054** | 19,168 | (0.6) % |
| **Operating Expenses** | | | | | |
| Operations and support | **11,246** | (667) | **11,913** | 12,866 | (7.4) % |
| EBITDA | **7,523** | 382 | **7,141** | 6,302 | 13.3 % |
| Depreciation and amortization | **2,068** | - | **2,068** | 2,027 | 2.0 % |
| **Total Operating Expenses** | **13,314** | (667) | **13,981** | 14,893 | (6.1) % |
| **Operating Income** | **5,455** | 382 | **5,073** | 4,275 | 18.7 % |
| **Equity in Net Income (Loss) of Affiliates** | **-** | - | **-** | - | - % |
| **Operating Contribution** | **$ 5,455** | $ 382 | **$ 5,073** | $ 4,275 | 18.7 % |
| | | | | | |
| Operating Income Margin | **29.1 %** | | **26.6 %** | 22.3 % | 430 BP |
| EBITDA Margin | **40.1 %** | | **37.5 %** | 32.9 % | 460 BP |
| EBITDA Service Margin | **54.3 %** | | **48.6 %** | 44.1 % | 450 BP |

## SUPPLEMENTAL ENTERTAINMENT GROUP

| Supplemental Entertainment Group Results | | | | | |
|---|---|---|---|---|---|
| *Dollars in millions* | | | | | |
| *Unaudited* | Fourth Quarter | | | | |
| | **2018** | Accounting Impact | **Historical 2018** | 2017 | Percent Change |
| **Operating Revenues** | | | | | |
| Video entertainment | **$ 8,676** | $ (117) | **$ 8,793** | $ 9,200 | (4.4) % |
| High-speed internet | **2,052** | - | **2,052** | 1,890 | 8.6 % |
| Legacy voice and data services | **724** | (34) | **758** | 878 | (13.7) % |
| Other service and equipment | **510** | (66) | **576** | 592 | (2.7) % |
| **Total Operating Revenues** | **11,962** | (217) | **12,179** | 12,560 | (3.0) % |
| **Operating Expenses** | | | | | |
| Operations and support | **9,807** | (374) | **10,181** | 10,192 | (0.1) % |
| EBITDA | **2,155** | 157 | **1,998** | 2,368 | (15.6) % |
| Depreciation and amortization | **1,329** | - | **1,329** | 1,367 | (2.8) % |
| **Total Operating Expenses** | **11,136** | (374) | **11,510** | 11,559 | (0.4) % |
| **Operating Income** | **826** | 157 | **669** | 1,001 | (33.2) % |
| **Equity in Net Income (Loss) of Affiliates** | **(1)** | - | **(1)** | - | - % |
| **Contribution** | **$ 825** | $ 157 | **$ 668** | $ 1,001 | (33.3) % |
| | | | | | |
| Operating Income Margin | **6.9 %** | | **5.5 %** | 8.0 % | (250) BP |
| EBITDA Margin | **18.0 %** | | **16.4 %** | 18.9 % | (250) BP |

## SUPPLEMENTAL BUSINESS WIRELINE

| Supplemental Business Wireline Results | | | | | |
|---|---|---|---|---|---|
| *Dollars in millions* | | | | | |
| *Unaudited* | Fourth Quarter | | | | |
| | **2018** | Accounting Impact | **Historical 2018** | 2017 | Percent Change |
| **Operating Revenues** | | | | | |
| Strategic services | **$ 3,142** | $ (3) | **$ 3,145** | $ 3,070 | 2.4 % |
| Legacy voice and data services | **2,521** | (267) | **2,788** | 3,251 | (14.2) % |
| Other service and equipment | **1,064** | (76) | **1,140** | 1,061 | 7.4 % |
| **Total Operating Revenues** | **6,727** | (346) | **7,073** | 7,382 | (4.2) % |
| **Operating Expenses** | | | | | |
| Operations and support | **4,161** | (368) | **4,529** | 4,586 | (1.2) % |
| EBITDA | **2,566** | 22 | **2,544** | 2,796 | (9.0) % |
| Depreciation and amortization | **1,207** | - | **1,207** | 1,206 | 0.1 % |
| **Total Operating Expenses** | **5,368** | (368) | **5,736** | 5,792 | (1.0) % |
| **Operating Income** | **1,359** | 22 | **1,337** | 1,590 | (15.9) % |
| **Equity in Net Income of Affiliates** | **-** | - | **-** | (2) | - % |
| **Operating Contribution** | **$ 1,359** | $ 22 | **$ 1,337** | $ 1,588 | (15.8) % |
| | | | | | |
| Operating Income Margin | **20.2 %** | | **18.9 %** | 21.5 % | (260) BP |
| EBITDA Margin | **38.1 %** | | **36.0 %** | 37.9 % | (190) BP |

## SUPPLEMENTAL LATIN AMERICA

| Supplemental Segment Results | | | | | |
|---|---|---|---|---|---|
| *Dollars in millions* | | | | | |
| *Unaudited* | Fourth Quarter | | | | |
| | **2018** | Accounting Impact | **Historical 2018** | 2017 | Percent Change |
| **Segment Operating Revenues** | | | | | |
| Vrio | **$ 1,074** | $ - | **$ 1,074** | $ 1,391 | (22.8) % |
| Mexico | **769** | (9) | **778** | 824 | (5.6) % |
| **Total Segment Operating Revenues** | **1,843** | (9) | **1,852** | 2,215 | (16.4) % |
| **Segment Operating Expenses** | | | | | |
| Operations and support | **1,805** | (30) | **1,835** | 1,936 | (5.2) % |
| EBITDA | **38** | 21 | **17** | 279 | (93.9) % |
| Depreciation and amortization | **296** | - | **296** | 313 | (5.4) % |
| **Total Segment Operating Expenses** | **2,101** | (30) | **2,131** | 2,249 | (5.2) % |
| **Segment Operating Income (Loss)** | **(258)** | 21 | **(279)** | (34) | - % |
| **Equity in Net Income of Affiliates** | **10** | - | **10** | 25 | (60.0) % |
| **Segment Contribution** | **$ (248)** | $ 21 | **$ (269)** | $ (9) | - % |
| | | | | | |
| Operating Income Margin | **(14.0) %** | | **(15.1) %** | (1.5) % | (1,360) BP |
| EBITDA Margin | **2.1 %** | | **0.9 %** | 12.6 % | (1,170) BP |

## SUPPLEMENTAL BUSINESS SOLUTIONS

As a supplemental presentation to our Communications segment operating results, we are providing a view of our AT&T Business Solutions results which includes both wireless and fixed operations. This combined view presents a complete profile of the entire business customer relationship, and underscores the importance of mobile solutions to serving our business customers.

| Supplemental Operating Results | | | | | |
|---|---|---|---|---|---|
| *Dollars in millions* | | | | | |
| *Unaudited* | Fourth Quarter | | | | |
| | **2018** | Accounting Impact | **Historical 2018** | 2017 | Percent Change |
| **Operating Revenues** | | | | | |
| Wireless service | **$ 1,900** | $ (209) | **$ 2,109** | $ 1,979 | 6.6 % |
| Strategic services | **3,142** | (3) | **3,145** | 3,070 | 2.4 % |
| Legacy voice and data services | **2,521** | (267) | **2,788** | 3,251 | (14.2) % |
| Other service and equipment | **1,064** | (76) | **1,140** | 1,061 | 7.4 % |
| Wireless equipment | **780** | 210 | **570** | 564 | 1.1 % |
| **Total Operating Revenues** | **9,407** | (345) | **9,752** | 9,925 | (1.7) % |
| **Operating Expenses** | | | | | |
| Operations and support | **5,911** | (470) | **6,381** | 6,349 | 0.5 % |
| EBITDA | **3,496** | 125 | **3,371** | 3,576 | (5.7) % |
| Depreciation and amortization | **1,507** | - | **1,507** | 1,492 | 1.0 % |
| **Total Operating Expenses** | **7,418** | (470) | **7,888** | 7,841 | 0.6 % |
| **Operating Income** | **1,989** | 125 | **1,864** | 2,084 | (10.6) % |
| **Equity in Net Income (Loss) of Affiliates** | **-** | - | **-** | (1) | - % |
| **Operating Contribution** | **$ 1,989** | $ 125 | **$ 1,864** | $ 2,083 | (10.5) % |
| | | | | | |
| Operating Income Margin | **21.1** % | | **19.1** % | 21.0 % | (190) BP |
| EBITDA Margin | **37.2** % | | **34.6** % | 36.0 % | (140) BP |

## SUPPLEMENTAL INCOME STATEMENT

As a supplemental discussion of our operating results, we are providing results under the comparative historical accounting method prior to our adoption of ASC 606 and other accounting changes.

**Supplemental Consolidated Statements of Income**

*Dollars in millions except per share amounts*
*Unaudited*

| | Year Ended 2018 | Year Ended Accounting Impact | Year Ended Historical 2018 | Year Ended 2017 | Percent Change |
|---|---|---|---|---|---|
| **Operating Revenues** | | | | | |
| Service | **$ 152,345** | $ (5,634) | **$ 157,979** | $ 145,597 | 8.5 % |
| Equipment | **18,411** | 2,087 | **16,324** | 14,949 | 9.2 % |
| **Total Operating Revenues** | **170,756** | (3,547) | **174,303** | 160,546 | 8.6 % |
| **Operating Expenses** | | | | | |
| Cost of revenues | | | | | |
| Equipment | **19,786** | - | **19,786** | 18,709 | 5.8 % |
| Broadcast, programming and operations | **26,727** | - | **26,727** | 21,159 | 26.3 % |
| Other cost of revenues (exclusive of depreciation and amortization shown separately below) | **32,906** | (3,730) | **36,636** | 37,942 | (3.4) % |
| Selling, general and administrative | **36,765** | (2,196) | **38,961** | 35,465 | 9.9 % |
| Asset abandonments and impairments | **46** | - | **46** | 2,914 | (98.4) % |
| Depreciation and amortization | **28,430** | - | **28,430** | 24,387 | 16.6 % |
| **Total Operating Expenses** | **144,660** | (5,926) | **150,586** | 140,576 | 7.1 % |
| **Operating Income** | **26,096** | 2,379 | **23,717** | 19,970 | 18.8 % |
| **Interest Expense** | **(7,957)** | - | **(7,957)** | (6,300) | 26.3 % |
| **Equity in Net Income (Loss) of Affiliates** | **(48)** | - | **(48)** | (128) | 62.5 % |
| **Other Income (Expense) - Net** | **6,782** | - | **6,782** | 1,597 | - % |
| **Income Before Income Taxes** | **24,873** | 2,379 | **22,494** | 15,139 | 48.6 % |
| **Income Tax (Benefit) Expense** | **4,920** | 583 | **4,337** | (14,708) | - % |
| **Net Income** | **19,953** | 1,796 | **18,157** | 29,847 | (39.2) % |
| **Less: Net Income Attributable to Noncontrolling Interest** | **(583)** | (23) | **(560)** | (397) | (41.1) % |
| **Net Income Attributable to AT&T** | **$ 19,370** | $ 1,773 | **$ 17,597** | $ 29,450 | (40.2) % |
| **Basic Earnings Per Share Attributable to AT&T** | **$ 2.85** | $ 0.26 | **$ 2.59** | $ 4.77 | (45.7) % |
| Weighted Average Common Shares Outstanding (000,000) | **6,778** | - | **6,778** | 6,164 | 10.0 % |
| **Diluted Earnings Per Share Attributable to AT&T** | **$ 2.85** | $ 0.26 | **$ 2.59** | $ 4.76 | (45.6) % |
| Weighted Average Common Shares Outstanding with Dilution (000,000) | **6,806** | - | **6,806** | 6,183 | 10.1 % |

# Discussion and Reconciliation of Non-GAAP Measures

**We believe the following measures are relevant and useful information to investors as they are part of AT&T's internal management reporting and planning processes and are important metrics that management uses to evaluate the operating performance of AT&T and its segments. Management also uses these measures as a method of comparing performance with that of many of our competitors.**

Certain amounts have been conformed to the current period's presentation, including our adoption of new accounting standards; ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," and ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash; and our revised operating segments.

## FREE CASH FLOW

Free cash flow is defined as cash from operations minus Capital expenditures. Free cash flow after dividends is defined as cash from operations minus Capital expenditures and dividends. Free cash flow dividend payout ratio is defined as the percentage of dividends paid to free cash flow. We believe these metrics provide useful information to our investors because management views free cash flow as an important indicator of how much cash is generated by routine business operations, including Capital expenditures, and makes decisions based on it. Management also views free cash flow as a measure of cash available to pay debt and return cash to shareowners.

**Free Cash Flow and Free Cash Flow Dividend Payout Ratio**

*Dollars in millions*

| | Fourth Quarter | | Year Ended | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Net cash provided by operating activities | **$ 12,080** | $ 9,537 | **$ 43,602** | $ 38,010 |
| Less: Capital expenditures | **(4,152)** | (5,076) | **(21,251)** | (21,550) |
| **Free Cash Flow** | **7,928** | 4,461 | **22,351** | 16,460 |
| | | | | |
| Less: Dividends paid | **(3,635)** | (3,008) | **(13,410)** | (12,038) |
| Free Cash Flow after Dividends | **$ 4,293** | $ 1,453 | **$ 8,941** | $ 4,422 |
| **Free Cash Flow Dividend Payout Ratio** | **45.9%** | 67.4% | **60.0%** | 73.1% |

## EBITDA

Our calculation of EBITDA, as presented, may differ from similarly titled measures reported by other companies. For AT&T, EBITDA excludes other income (expense) – net, and equity in net income (loss) of affiliates, as these do not reflect the operating results of our subscriber base or operations that are not under our control. Equity in net income (loss) of affiliates represents the proportionate share of the net income (loss) of affiliates in which we exercise significant influence, but do not control. Because we do not control these entities, management excludes these results when evaluating the performance of our primary operations. EBITDA also excludes interest expense and the provision for income taxes. Excluding these items eliminates the expenses associated with our capital and tax structures. Finally, EBITDA excludes depreciation and amortization in order to eliminate the impact of capital investments. EBITDA does not give effect to cash used for debt service requirements and thus does not reflect available funds for distributions, reinvestment or other discretionary uses. EBITDA is not presented as an alternative measure of operating results or cash flows from operations, as determined in accordance with U.S. generally accepted accounting principles (GAAP).

EBITDA service margin is calculated as EBITDA divided by service revenues.

When discussing our segment, business unit and supplemental results, EBITDA excludes equity in net income (loss) of affiliates, and depreciation and amortization from operating contribution.

These measures are used by management as a gauge of our success in acquiring, retaining and servicing subscribers because we believe these measures reflect AT&T's ability to generate and grow subscriber revenues while providing a high level of customer service in a cost-effective manner. Management also uses these measures as a method of comparing operating performance with that of many of its competitors. The financial and operating metrics which affect EBITDA include the key revenue and expense drivers for which management is responsible and upon which we evaluate performance.

We believe EBITDA Service Margin (EBITDA as a percentage of service revenues) to be a more relevant measure than EBITDA Margin (EBITDA as a percentage of total revenue) for our Mobility business unit operating margin. We also use wireless service revenues to calculate margin to facilitate comparison, both internally and externally with our wireless competitors, as they calculate their margins using wireless service revenues as well.

There are material limitations to using these non-GAAP financial measures. EBITDA, EBITDA margin and EBITDA service margin, as we have defined them, may not be comparable to similarly titled measures reported by other companies. Furthermore, these performance measures do not take into account certain significant items, including depreciation and amortization, interest expense, tax expense and equity in net income (loss) of affiliates. Management compensates for these limitations by carefully analyzing how its competitors present performance measures that are similar in nature to EBITDA as we present it, and considering the economic effect of the excluded expense items independently as well as in connection with its analysis of net income as calculated in accordance with GAAP. EBITDA, EBITDA margin and EBITDA service margin should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with GAAP.

| EBITDA, EBITDA Margin and EBITDA Service Margin | | | | |
|---|---|---|---|---|
| *Dollars in millions* | | | | |
| | Fourth Quarter | | Year Ended | |
| | **2018** | 2017 | **2018** | 2017 |
| **Net Income** | **$ 5,130** | $ 19,136 | **$ 19,953** | $ 29,847 |
| Additions: | | | | |
| Income Tax (Benefit) Expense | **615** | (20,419) | **4,920** | (14,708) |
| Interest Expense | **2,112** | 1,926 | **7,957** | 6,300 |
| Equity in Net (Income) Loss of Affiliates | **(23)** | (20) | **48** | 128 |
| Other (Income) Expense - Net | **(1,674)** | 658 | **(6,782)** | (1,597) |
| Depreciation and amortization | **7,892** | 6,071 | **28,430** | 24,387 |
| **EBITDA** | **14,052** | 7,352 | **54,526** | 44,357 |
| | | | | |
| Total Operating Revenues | **47,993** | 41,676 | **170,756** | 160,546 |
| Service Revenues | **42,496** | 36,225 | **152,345** | 145,597 |
| | | | | |
| **EBITDA Margin** | **29.3%** | 17.6% | **31.9%** | 27.6% |
| **EBITDA Service Margin** | **33.1%** | 20.3% | **35.8%** | 30.5% |

| Supplemental Historical EBITDA, EBITDA Margin and EBITDA Service Margin | | |
|---|---|---|
| *Dollars in millions* | | |
| | Fourth Quarter | Year Ended |
| | **2018** | **2018** |
| **Net Income** | **$ 4,690** | **$ 18,157** |
| Additions: | | |
| Income Tax (Benefit) Expense | **472** | **4,337** |
| Interest Expense | **2,112** | **7,957** |
| Equity in Net (Income) Loss of Affiliates | **(23)** | **48** |
| Other (Income) Expense - Net | **(1,674)** | **(6,782)** |
| Depreciation and amortization | **7,892** | **28,430** |
| **EBITDA** | **13,469** | **52,147** |
| | | |
| Total Operating Revenues | **48,857** | **174,303** |
| Service Revenues | **43,931** | **157,979** |
| | | |
| **EBITDA Margin** | **27.6%** | **29.9%** |
| **EBITDA Service Margin** | **30.7%** | **33.0%** |

| Segment and Business Unit EBITDA, EBITDA Margin and EBITDA Service Margin | | | | |
|---|---|---|---|---|
| *Dollars in millions* | | | | |
| | Fourth Quarter | | Year Ended | |
| | **2018** | 2017 | **2018** | 2017 |
| **Communications Segment** | | | | |
| **Operating Contribution** | **$ 7,639** | $ 6,864 | **$ 32,262** | $ 31,685 |
| Additions: | | | | |
| Equity in Net (Income) Loss of Affiliates | **1** | 2 | **4** | 2 |
| Depreciation and amortization | **4,604** | 4,600 | **18,424** | 18,425 |
| **EBITDA** | **12,244** | 11,466 | **50,690** | 50,112 |
| | | | | |
| Total Operating Revenues | **37,458** | 39,110 | **144,631** | 150,378 |
| | | | | |
| **Operating Income Margin** | **20.4%** | 17.6% | **22.3%** | 21.1% |
| **EBITDA Margin** | **32.7%** | 29.3% | **35.0%** | 33.3% |
| ***Mobility*** | | | | |
| **Operating Contribution** | **$ 5,455** | $ 4,275 | **$ 21,722** | $ 20,204 |
| Additions: | | | | |
| Equity in Net (Income) of Affiliates | **-** | - | **1** | - |
| Depreciation and amortization | **2,068** | 2,027 | **8,355** | 8,015 |
| **EBITDA** | **7,523** | 6,302 | **30,078** | 28,219 |
| | | | | |
| Total Operating Revenues | **18,769** | 19,168 | **71,344** | 71,090 |
| Service Revenues | **13,859** | 14,282 | **54,933** | 57,696 |
| | | | | |
| **Operating Income Margin** | **29.1%** | 22.3% | **30.4%** | 28.4% |
| **EBITDA Margin** | **40.1%** | 32.9% | **42.2%** | 39.7% |
| **EBITDA Service Margin** | **54.3%** | 44.1% | **54.8%** | 48.9% |
| | | | | |
| ***Entertainment Group*** | | | | |
| **Operating Contribution** | **$ 825** | $ 1,001 | **$ 4,713** | $ 5,471 |
| Additions: | | | | |
| Equity in Net (Income) Loss of Affiliates | **1** | - | **2** | - |
| Depreciation and amortization | **1,329** | 1,367 | **5,315** | 5,621 |
| **EBITDA** | **2,155** | 2,368 | **10,030** | 11,092 |
| | | | | |
| Total Operating Revenues | **11,962** | 12,560 | **46,460** | 49,995 |
| | | | | |
| **Operating Income Margin** | **6.9%** | 8.0% | **10.1%** | 10.9% |
| **EBITDA Margin** | **18.0%** | 18.9% | **21.6%** | 22.2% |
| ***Business Wireline*** | | | | |
| **Operating Contribution** | **$ 1,359** | $ 1,588 | **$ 5,827** | $ 6,010 |
| Additions: | | | | |
| Equity in Net (Income) Loss of Affiliates | **-** | 2 | **1** | 2 |
| Depreciation and amortization | **1,207** | 1,206 | **4,754** | 4,789 |
| **EBITDA** | **2,566** | 2,796 | **10,582** | 10,801 |
| | | | | |
| Total Operating Revenues | **6,727** | 7,382 | **26,827** | 29,293 |
| | | | | |
| **Operating Income Margin** | **20.2%** | 21.5% | **21.7%** | 20.5% |
| **EBITDA Margin** | **38.1%** | 37.9% | **39.4%** | 36.9% |

**Segment and Business Unit EBITDA, EBITDA Margin and EBITDA Service Margin**

*Dollars in millions*

| | Fourth Quarter | | Year Ended | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **WarnerMedia Segment** | | | | |
| **Operating Contribution** | **$ 2,703** | $ 41 | **$ 5,695** | $ 62 |
| Additions: | | | | |
| Equity in Net (Income) of Affiliates | **(80)** | 6 | **(25)** | 29 |
| Depreciation and amortization | **139** | 1 | **305** | 4 |
| **EBITDA** | **2,762** | 48 | **5,975** | 95 |
| | | | | |
| Total Operating Revenues | **9,232** | 107 | **18,941** | 430 |
| **Operating Income Margin** | **28.4%** | 43.9% | **29.9%** | 21.2% |
| **EBITDA Margin** | **29.9%** | 44.9% | **31.5%** | 22.1% |
| ***Turner*** | | | | |
| **Operating Contribution** | **$ 1,306** | $ 61 | **$ 3,108** | $ 140 |
| Additions: | | | | |
| Equity in Net (Income) of Affiliates | **(15)** | (13) | **(54)** | (45) |
| Depreciation and amortization | **60** | 1 | **131** | 4 |
| **EBITDA** | **1,351** | 49 | **3,185** | 99 |
| | | | | |
| Total Operating Revenues | **3,212** | 107 | **6,979** | 430 |
| **Operating Income Margin** | **40.2%** | 44.9% | **43.8%** | 22.1% |
| **EBITDA Margin** | **42.1%** | 45.8% | **45.6%** | 23.0% |
| ***Home Box Office*** | | | | |
| **Operating Contribution** | **$ 650** | $ - | **$ 1,384** | $ - |
| Additions: | | | | |
| Equity in Net (Income) Loss of Affiliates | **(28)** | - | **(29)** | - |
| Depreciation and amortization | **26** | - | **56** | - |
| **EBITDA** | **648** | - | **1,411** | - |
| | | | | |
| Total Operating Revenues | **1,673** | - | **3,598** | - |
| | | | | |
| **Operating Income Margin** | **37.2%** | - | **37.7%** | - |
| **EBITDA Margin** | **38.7%** | - | **39.2%** | - |
| ***Warner Bros.*** | | | | |
| **Operating Contribution** | **$ 807** | $ - | **$ 1,449** | $ - |
| Additions: | | | | |
| Equity in Net (Income) Loss of Affiliates | **4** | - | **28** | - |
| Depreciation and amortization | **42** | - | **96** | - |
| **EBITDA** | **853** | - | **1,573** | - |
| | | | | |
| Total Operating Revenues | **4,476** | - | **8,703** | - |
| | | | | |
| **Operating Income Margin** | **18.1%** | - | **17.0%** | - |
| **EBITDA Margin** | **19.1%** | - | **18.1%** | - |

**Segment and Business Unit EBITDA, EBITDA Margin and EBITDA Service Margin**

*Dollars in millions*

| | Fourth Quarter | | Year Ended | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Latin America Segment** | | | | |
| **Operating Contribution** | **$ (248)** | $ (9) | **$ (710)** | $ (266) |
| Additions: | | | | |
| Equity in Net (Income) of Affiliates | **(10)** | (25) | **(34)** | (87) |
| Depreciation and amortization | **296** | 313 | **1,238** | 1,218 |
| **EBITDA** | **38** | 279 | **494** | 865 |
| | | | | |
| Total Operating Revenues | **1,843** | 2,215 | **7,652** | 8,269 |
| | | | | |
| **Operating Income Margin** | **-14.0%** | -1.5% | **-9.7%** | -4.3% |
| **EBITDA Margin** | **2.1%** | 12.6% | **6.5%** | 10.5% |
| | | | | |
| ***Vrio*** | | | | |
| **Operating Contribution** | **$ 66** | $ 160 | **$ 347** | $ 522 |
| Additions: | | | | |
| Equity in Net (Income) of Affiliates | **(10)** | (25) | **(34)** | (87) |
| Depreciation and amortization | **169** | 207 | **728** | 849 |
| **EBITDA** | **225** | 342 | **1,041** | 1,284 |
| | | | | |
| Total Operating Revenues | **1,074** | 1,391 | **4,784** | 5,456 |
| | | | | |
| **Operating Income Margin** | **5.2%** | 9.7% | **6.5%** | 8.0% |
| **EBITDA Margin** | **20.9%** | 24.6% | **21.8%** | 23.5% |
| | | | | |
| ***Mexico*** | | | | |
| **Operating Contribution** | **$ (314)** | $ (169) | **$ (1,057)** | $ (788) |
| Additions: | | | | |
| Depreciation and amortization | **127** | 106 | **510** | 369 |
| **EBITDA** | **(187)** | (63) | **(547)** | (419) |
| | | | | |
| Total Operating Revenues | **769** | 824 | **2,868** | 2,813 |
| | | | | |
| **Operating Income Margin** | **-40.8%** | -20.5% | **-36.9%** | -28.0% |
| **EBITDA Margin** | **-24.3%** | -7.6% | **-19.1%** | -14.9% |

**Segment EBITDA, EBITDA Margin and EBITDA Service Margin**

*Dollars in millions*

| | Fourth Quarter | | Year Ended | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Xandr** | | | | |
| **Operating Contribution** | **$ 381** | $ 329 | **$ 1,333** | $ 1,202 |
| Additions: | | | | |
| Depreciation and amortization | **5** | 1 | **9** | 2 |
| **EBITDA** | **386** | 330 | **1,342** | 1,204 |
| | | | | |
| Total Operating Revenues | **566** | 381 | **1,740** | 1,373 |
| | | | | |
| **Operating Income Margin** | **67.3%** | 86.4% | **76.6%** | 87.5% |
| **EBITDA Margin** | **68.2%** | 86.6% | **77.1%** | 87.7% |

## ADJUSTING ITEMS

Adjusting items include revenues and costs we consider nonoperational in nature, such as items arising from asset acquisitions or dispositions. We also adjust for net actuarial gains or losses associated with our pension and postemployment benefit plans due to the often significant impact on our fourth-quarter results, unless earlier remeasurement is required (we immediately recognize this gain or loss in the income statement, pursuant to our accounting policy for the recognition of actuarial gains and losses.) Consequently, our adjusted results reflect an expected return on plan assets rather than the actual return on plan assets, as included in the GAAP measure of income.

The tax impact of adjusting items is calculated using the effective tax rate during the quarter except for adjustments that, given their magnitude, can drive a change in the effective tax rate, reflect the actual tax expense or combined marginal rate of approximately 38% for transactions prior to tax reform and 25% for transactions after tax reform.

**Adjusting Items**

| *Dollars in millions* | Fourth Quarter | | Year Ended | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Operating Revenues** | | | | |
| Time Warner deferred revenue | **$ 49** | $ - | **$ 49** | $ - |
| Natural disaster revenue credits | **-** | 154 | **-** | 243 |
| **Adjustments to Operating Revenues** | **49** | 154 | **49** | 243 |
| **Operating Expenses** | | | | |
| Time Warner and other merger costs | **436** | 63 | **1,185** | 214 |
| Employee separation costs | **327** | 177 | **587** | 445 |
| Natural disaster costs | **77** | 265 | **181** | 384 |
| Asset abandonments and impairments | **46** | 2,914 | **46** | 2,914 |
| Holding losses on benefit-related investments | **42** | - | **42** | - |
| DIRECTV merger integration costs | **-** | 95 | **-** | 412 |
| Mexico merger integration costs | **-** | 19 | **-** | 172 |
| Tax reform special bonus | **-** | 220 | **-** | 220 |
| (Gain) loss on transfer of wireless spectrum | **-** | - | **-** | (181) |
| Foreign currency exchange | **-** | - | **43** | 98 |
| **Adjustments to Operations and Support Expenses** | **928** | 3,753 | **2,084** | 4,678 |
| Amortization of intangible assets | **2,261** | 1,100 | **6,930** | 4,608 |
| Impairments | **26** | 33 | **26** | 33 |
| **Adjustments to Operating Expenses** | **3,215** | 4,886 | **9,040** | 9,319 |
| **Other** | | | | |
| Merger-related interest and fees[1] | **-** | 432 | **1,029** | 1,104 |
| Actuarial (gain) loss | **(686)** | 1,517 | **(3,412)** | 1,258 |
| Holding losses on benefit-related investments | **208** | - | **208** | - |
| (Gain) loss on sale of assets, impairments and other adjustments | **(352)** | 161 | **(631)** | 382 |
| **Adjustments to Income Before Income Taxes** | **2,434** | 7,150 | **6,283** | 12,306 |
| Tax impact of adjustments | **412** | 1,908 | **1,177** | 3,625 |
| Tax-related items | **601** | 19,455 | **505** | 19,309 |
| **Adjustments to Net Income** | **$ 1,421** | $ (14,213) | **$ 4,601** | $ (10,628) |

[1] Includes interest expense incurred on debt issued, redemption premiums and interest income earned on cash held prior to the close of merger transactions.

Adjusted Operating Income, Adjusted Operating Income Margin, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBITDA service margin and Adjusted diluted EPS are non-GAAP financial measures calculated by excluding from operating revenues, operating expenses and income tax expense certain significant items that are non-operational or non-recurring in nature, including dispositions and merger integration and transaction costs. Management believes that these measures provide relevant and useful information to investors and other users of our financial data in evaluating the effectiveness of our operations and underlying business trends.

Adjusted Operating Revenues, Adjusted Operating Income, Adjusted Operating Income Margin, Adjusted EBITDA, Adjusted EBITDA margin, Adjusted EBITDA service margin and Adjusted diluted EPS should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with GAAP. AT&T's calculation of Adjusted items, as presented, may differ from similarly titled measures reported by other companies.

**Adjusted Operating Income, Adjusted Operating Income Margin,
Adjusted EBITDA, Adjusted EBITDA Margin and Adjusted EBITDA Service Margin**

*Dollars in millions*

| | Fourth Quarter | | Year Ended | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Operating Income** | **$ 6,160** | $ 1,281 | **$ 26,096** | $ 19,970 |
| Adjustments to Operating Revenues | **49** | 154 | **49** | 243 |
| Adjustments to Operating Expenses | **3,215** | 4,886 | **9,040** | 9,319 |
| **Adjusted Operating Income** | **9,424** | 6,321 | **35,185** | 29,532 |
| | | | | |
| **EBITDA** | **14,052** | 7,352 | **54,526** | 44,357 |
| Adjustments to Operating Revenues | **49** | 154 | **49** | 243 |
| Adjustments to Operations and Support Expenses | **928** | 3,753 | **2,084** | 4,678 |
| **Adjusted EBITDA** | **15,029** | 11,259 | **56,659** | 49,278 |
| | | | | |
| **Pro forma as of June 30, 2018** | | | | |
| WarnerMedia Operating Income | **-** | | **3,047** | |
| Additions: | | | | |
| Depreciation and amortization | **-** | | **339** | |
| Merger costs | **-** | | **694** | |
| **WarnerMedia Adjusted EBITDA** | **-** | | **4,080** | |
| WarnerMedia segment income (post acquisition) | **-** | | **(451)** | |
| WarnerMedia segment depreciation and amortization (post acquisition) | **-** | | **(30)** | |
| WarnerMedia merger costs (post acquisition) | **-** | | **(159)** | |
| Film and television cost amortization (release prior to June 14) | **-** | | **1,103** | |
| **Pro Forma Adjusted EBITDA** [1] | **15,029** | | **61,202** | |
| | | | | |
| Total Operating Revenues | **47,993** | 41,676 | **170,756** | 160,546 |
| Adjustments to Operating Revenues | **49** | 154 | **49** | 243 |
| **Total Adjusted Operating Revenue** | **48,042** | 41,830 | **170,805** | 160,789 |
| Service Revenues | **42,496** | 36,225 | **152,345** | 145,597 |
| Adjustments to Service Revenues | **49** | 154 | **49** | 243 |
| **Adjusted Service Revenue** | **42,545** | 36,379 | **152,394** | 145,840 |
| | | | | |
| Operating Income Margin | **12.8%** | 3.1% | **15.3%** | 12.4% |
| Adjusted Operating Income Margin | **19.6%** | 15.1% | **20.6%** | 18.4% |
| **Adjusted EBITDA Margin** | **31.3%** | 26.9% | **33.2%** | 30.6% |
| **Adjusted EBITDA Service Margin** | **35.3%** | 30.9% | **37.2%** | 33.8% |
| | | | | |
| **Supplemental Results under Historical Accounting Method** | | | | |
| Operating Income | **5,577** | | **23,717** | |
| Adjustments to Operating Revenues | **49** | | **49** | |
| Adjustments to Operating Expenses | **3,215** | | **9,040** | |
| **Adjusted Supplemental Operating Income** | **8,841** | | **32,806** | |
| | | | | |
| EBITDA | **13,469** | | **52,147** | |
| Adjustments to Operating Revenues | **49** | | **49** | |
| Adjustments to Operations and Support Expenses | **928** | | **2,084** | |
| **Adjusted Supplemental EBITDA** | **14,446** | | **54,280** | |
| | | | | |
| Supplemental Operating Revenues | **48,857** | | **174,303** | |
| | | | | |
| **Adjusted Supplemental Operating Income Margin** | **18.1%** | | **18.8%** | |
| **Adjusted Supplemental EBITDA margin** | **29.6%** | | **31.1%** | |

[1] Pro Forma Adjusted EBITDA reflects the combined results operations of the combined company based on the historical financial statements of AT&T and Time Warner, after giving effect to the merger and certain adjustments, and is intended to reflect the impact of the Time Warner acquisition on AT&T. WarnerMedia operating income, depreciation and amortization expense and merger costs are provided on Item 7.01 Form 8-K filed by AT&T on July 24, 2018. Pro Forma adjustments are to (1) remove the duplication of operating results for the 16-period in which AT&T also reported Time Warner results and (2) to recognize the purchase accounting classification of released content as intangible assets and accordingly reclassify associated content amortization from operating expense to amortization expense. Intercompany revenue and expense eliminations net and do not impact EBITDA.

| Adjusted Diluted EPS | | | | |
|---|---|---|---|---|
| | Fourth Quarter | | Year Ended | |
| | **2018** | 2017 | **2018** | 2017 |
| **Diluted Earnings Per Share (EPS)** | **$ 0.66** | $ 3.08 | **$ 2.85** | $ 4.76 |
| Amortization of intangible assets | **0.25** | 0.12 | **0.81** | 0.50 |
| Merger integration items[1] | **0.06** | 0.07 | **0.26** | 0.21 |
| (Gain) loss on sale of assets, impairments and other adjustments[2] | **0.04** | 0.48 | **0.05** | 0.58 |
| Actuarial (gain) loss[3] | **(0.07)** | 0.19 | **(0.38)** | 0.16 |
| Tax-related items | **(0.08)** | (3.16) | **(0.07)** | (3.16) |
| **Adjusted EPS** | **$ 0.86** | $ 0.78 | **$ 3.52** | $ 3.05 |
| *Year-over-year growth - Adjusted* | **10.3%** | | **15.4%** | |
| **Weighted Average Common Shares Outstanding with Dilution (000,000)** | **7,328** | 6,182 | **6,806** | 6,183 |

[1]Includes combined merger integration items and merger-related interest income and expense, and redemption premiums.
[2]Includes gains on transactions, natural disaster adjustments and charges, and employee-related and other costs.
[3]Includes adjustments for actuarial gains or losses associated with our postemployment benefit plans, which we immediately recognize in the income statement, pursuant to our accounting policy for the recognition of actuarial gains/losses. We recorded total net actuarial gains of $3.4 billion in 2018. As a result, adjusted EPS reflects an expected return on plan assets of $3.5 billion (based on an average expected return on plan assets of 7.00% for our pension trust and 5.75% for our VEBA trusts), rather than the actual return on plan assets of $1.2 billion loss (actual pension return of -1.4% and VEBA return of -4.2%), included in the GAAP measure of income.

## PRO FORMA NET DEBT TO ADJUSTED EBITDA

Net Debt to EBITDA ratios are non-GAAP financial measures frequently used by investors and credit rating agencies and management believes these measures provide relevant and useful information to investors and other users of our financial data. Our Net Debt to Pro Forma Adjusted EBITDA ratio is calculated by dividing the Net Debt by Annualized Pro Forma Adjusted EBITDA. Net Debt is calculated by subtracting cash and cash equivalents and certificates of deposit and time deposits that are greater than 90 days, from the sum of debt maturing within one year and long-term debt. Annualized Pro Forma Adjusted EBITDA is calculated by annualizing the year-to-date Pro Forma Adjusted EBITDA.

Our Annualized Net Debt to Pro Forma Adjusted EBITDA ratio for the year ended December 31, 2018 reflects the benefit of amortization of prior service credits of $1,754 in Other Income (Expense) - net rather than EBITDA, consistent with treatment for consolidated reported results. Segment results continue to show this benefit as a reduction in their operating expenses, consistent with treatment prior to adoption of accounting rules in first-quarter 2018. If we had used the historical method of accounting for prior service credits, our 2018 Annualized Net Debt to Pro Forma Adjusted EBITDA Ratio would be 2.75.

| Net Debt to Pro Forma Adjusted EBITDA | | | | | |
|---|---|---|---|---|---|
| *Dollars in millions* | | | | | |
| | Three Months Ended | | | | |
| | Mar. 31, 2018 | Jun. 30, 2018 | Sep. 30, 2018 | **Dec. 31, 2018** | **YTD 2018** |
| Pro Forma Adjusted EBITDA[1] | $ 15,182 | $ 15,119 | $ 15,872 | $ **15,029** | **$ 61,202** |
| Add back severance | (51) | (133) | (76) | **(327)** | **(587)** |
| Net Debt Pro Forma Adjusted EBITDA | 15,131 | 14,986 | 15,796 | **14,702** | **60,615** |
| **Annualized Pro Forma Adjusted EBITDA** | | | | | **60,615** |
| End-of-period current debt | | | | | **10,255** |
| End-of-period long-term debt | | | | | **166,250** |
| **Total End-of-Period Debt** | | | | | **176,505** |
| Less: Cash and Cash Equivalents | | | | | **5,204** |
| **Net Debt Balance** | | | | | **171,301** |
| **Annualized Net Debt to Pro Forma Adjusted EBITDA Ratio** | | | | | **2.83** |

[1]Includes the purchase accounting reclassification of released content amortization of $612 million pro forma in the first quarter, $491 million pro forma and $98 million reported by AT&T in the second quarter and $772 million reported and $545 million reported by AT&T in the third and fourth quarters of 2018, respectively.

## SUPPLEMENTAL OPERATIONAL MEASURES

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

| Supplemental Operational Measure | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Three Months Ended | | | | | | | |
| | **December 31, 2018** | | | | December 31, 2017 | | | |
| | **Mobility** | **Business Wireline** | **Adjustments[1]** | **Business Solutions** | Mobility | Business Wireline | Adjustments[1] | Business Solutions |
| **Operating Revenues** | | | | | | | | |
| Wireless service | **$ 13,859** | **$ -** | **$ (11,959)** | **$ 1,900** | $ 14,282 | $ - | $ (12,303) | $ 1,979 |
| Strategic services | **-** | **3,142** | **-** | **3,142** | - | 3,070 | - | 3,070 |
| Legacy voice and data services | **-** | **2,521** | **-** | **2,521** | - | 3,251 | - | 3,251 |
| Other services and equipment | **-** | **1,064** | **-** | **1,064** | - | 1,061 | - | 1,061 |
| Wireless equipment | **4,910** | **-** | **(4,130)** | **780** | 4,886 | - | (4,322) | 564 |
| **Total Operating Revenues** | **18,769** | **6,727** | **(16,089)** | **9,407** | 19,168 | 7,382 | (16,625) | 9,925 |
| Operations and support | **11,246** | **4,161** | **(9,496)** | **5,911** | 12,866 | 4,586 | (11,103) | 6,349 |
| EBITDA | **7,523** | **2,566** | **(6,593)** | **3,496** | 6,302 | 2,796 | (5,522) | 3,576 |
| Depreciation and amortization | **2,068** | **1,207** | **(1,768)** | **1,507** | 2,027 | 1,206 | (1,741) | 1,492 |
| **Total Operating Expenses** | **13,314** | **5,368** | **(11,264)** | **7,418** | 14,893 | 5,792 | (12,844) | 7,841 |
| **Operating Income** | **5,455** | **1,359** | **(4,825)** | **1,989** | 4,275 | 1,590 | (3,781) | 2,084 |
| **Equity in net Income of Affiliates** | **-** | **-** | **-** | **-** | - | (2) | 1 | (1) |
| **Contribution** | **$ 5,455** | **$ 1,359** | **$ (4,825)** | **$ 1,989** | **$** 4,275 | **$** 1,588 | **$** (3,780) | **$** 2,083 |

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

| Supplemental Operational Measure | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Year Ended | | | | | | | |
| | **December 31, 2018** | | | | December 31, 2017 | | | |
| | **Mobility** | **Business Wireline** | **Adjustments[1]** | **Business Solutions** | Mobility | Business Wireline | Adjustments[1] | Business Solutions |
| **Operating Revenues** | | | | | | | | |
| Wireless service | **$ 54,933** | **$ -** | **$ (47,536)** | **$ 7,397** | $ 57,696 | $ - | $ (49,687) | $ 8,009 |
| Strategic services | **-** | **12,310** | **-** | **12,310** | - | 11,950 | - | 11,950 |
| Legacy voice and data services | **-** | **10,697** | **-** | **10,697** | - | 13,565 | - | 13,565 |
| Other services and equipment | **-** | **3,820** | **-** | **3,820** | - | 3,778 | - | 3,778 |
| Wireless equipment | **16,411** | **-** | **(13,879)** | **2,532** | 13,394 | - | (11,842) | 1,552 |
| **Total Operating Revenues** | **71,344** | **26,827** | **(61,415)** | **36,756** | 71,090 | 29,293 | (61,529) | 38,854 |
| | | | | | | | | |
| **Operating Expenses** | | | | | | | | |
| Operations and support | **41,266** | **16,245** | **(34,792)** | **22,719** | 42,871 | 18,492 | (36,867) | 24,496 |
| EBITDA | **30,078** | **10,582** | **(26,623)** | **14,037** | 28,219 | 10,801 | (24,662) | 14,358 |
| Depreciation and amortization | **8,355** | **4,754** | **(7,158)** | **5,951** | 8,015 | 4,789 | (6,903) | 5,901 |
| **Total Operating Expenses** | **49,621** | **20,999** | **(41,950)** | **28,670** | 50,886 | 23,281 | (43,770) | 30,397 |
| **Operating Income** | **21,723** | **5,828** | **(19,465)** | **8,086** | 20,204 | 6,012 | (17,759) | 8,457 |
| **Equity in net Income of Affiliates** | **(1)** | **(1)** | **1** | **(1)** | - | (2) | 1 | (1) |
| **Contribution** | **$ 21,722** | **$ 5,827** | **$ (19,464)** | **$ 8,085** | **$** 20,204 | **$** 6,010 | **$** (17,758) | **$** 8,456 |

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