AT&T INC. FINANCIAL REVIEW 2017

Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 and for the year ended:	**2017**	2016	2015	2014	2013
Financial Data					
Operating revenues	**$160,546**	$163,786	$146,801	$132,447	$128,752
Operating expenses	**$139,597**	$139,439	$122,016	$120,235	$ 98,000
Operating income	**$ 20,949**	$ 24,347	$ 24,785	$ 12,212	$ 30,752
Interest expense	**$ 6,300**	$ 4,910	$ 4,120	$ 3,613	$ 3,940
Equity in net income (loss) of affiliates	**$ (128)**	$ 98	$ 79	$ 175	$ 642
Other income (expense) – net	**$ 618**	$ 277	$ (52)	$ 1,581	$ 596
Income tax (benefit) expense	**$ (14,708)**	$ 6,479	$ 7,005	$ 3,619	$ 9,328
Net Income	**$ 29,847**	$ 13,333	$ 13,687	$ 6,736	$ 18,722
Less: Net Income Attributable to Noncontrolling Interest	**$ (397)**	$ (357)	$ (342)	$ (294)	$ (304)
Net Income Attributable to AT&T	**$ 29,450**	$ 12,976	$ 13,345	$ 6,442	$ 18,418
Earnings Per Common Share: Net Income Attributable to AT&T	**$ 4.77**	$ 2.10	$ 2.37	$ 1.24	$ 3.42
Earnings Per Common Share – Assuming Dilution: Net Income Attributable to AT&T	**$ 4.76**	$ 2.10	$ 2.37	$ 1.24	$ 3.42
Cash and cash equivalents	**$ 50,498**	$ 5,788	$ 5,121	$ 8,603	$ 3,339
Total assets	**$444,097**	$403,821	$402,672	$296,834	$281,423
Long-term debt	**$125,972**	$113,681	$118,515	$ 75,778	$ 69,091
Total debt	**$164,346**	$123,513	$126,151	$ 81,834	$ 74,589
Capital expenditures	**$ 21,550**	$ 22,408	$ 20,015	$ 21,433	$ 21,228
Dividends declared per common share	**$ 1.97**	$ 1.93	$ 1.89	$ 1.85	$ 1.81
Book value per common share	**$ 23.13**	$ 20.22	$ 20.12	$ 17.40	$ 18.10
Ratio of earnings to fixed charges	**2.63**	3.59	4.01	2.91	6.03
Debt ratio	**53.6%**	49.9%	50.5%	47.5%	44.1%
Net debt ratio	**37.2%**	47.5%	48.5%	42.6%	42.1%
Weighted-average common shares outstanding (000,000)	**6,164**	6,168	5,628	5,205	5,368
Weighted-average common shares outstanding with dilution (000,000)	**6,183**	6,189	5,646	5,221	5,385
End of period common shares outstanding (000,000)	**6,139**	6,139	6,145	5,187	5,226
Operating Data					
Total wireless customers (000)	**156,666**	146,832	137,324	120,554	110,376
Video connections (000)[1]	**38,899**	38,015	37,934	5,943	5,460
In-region network access lines in service (000)	**11,753**	13,986	16,670	19,896	24,639
Broadband connections (000)	**15,719**	15,605	15,778	16,028	16,425
Number of employees	**254,000**	268,540	281,450	243,620	243,360

[1] Prior period amounts are restated to conform to current-period reporting methodology.

Dollars in millions except per share and per subscriber amounts

RESULTS OF OPERATIONS

For ease of reading, AT&T Inc. is referred to as "we," "AT&T" or the "Company" throughout this document, and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate in the communications and digital entertainment services industry. Our subsidiaries and affiliates provide services and equipment that deliver voice, video and broadband services both domestically and internationally. During 2015, we completed our acquisitions of DIRECTV and wireless properties in Mexico. The following discussion of changes in our operating revenues and expenses is affected by the timing of these acquisitions. In accordance with U.S. generally accepted accounting principles (GAAP), our 2015 results include 160 days of DIRECTV-related operations compared with a full year in 2016 and 2017. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes. A reference to a "Note" in this section refers to the accompanying Notes to Consolidated Financial Statements. In the tables throughout this section, percentage increases and decreases that are not considered meaningful are denoted with a dash. Certain amounts have been reclassified to conform to the current period's presentation.

Consolidated Results Our financial results are summarized in the table below. We then discuss factors affecting our overall results for the past three years. These factors are discussed in more detail in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2018 in the "Operating Environment and Trends of the Business" section.

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Operating revenues					
Service	**$145,597**	$148,884	$131,677	**(2.2)%**	13.1%
Equipment	**14,949**	14,902	15,124	**0.3**	(1.5)
Total Operating Revenues	**160,546**	163,786	146,801	**(2.0)**	11.6
Operating expenses					
Cost of services and sales					
Equipment	**18,709**	18,757	19,268	**(0.3)**	(2.7)
Broadcast, programming and operations	**21,159**	19,851	11,996	**6.6**	65.5
Other cost of services	**37,511**	38,276	35,782	**(2.0)**	7.0
Selling, general and administrative	**34,917**	36,347	32,919	**(3.9)**	10.4
Asset abandonments and impairments	**2,914**	361	35	**—**	—
Depreciation and amortization	**24,387**	25,847	22,016	**(5.6)**	17.4
Total Operating Expenses	**139,597**	139,439	122,016	**0.1**	14.3
Operating Income	**20,949**	24,347	24,785	**(14.0)**	(1.8)
Interest expense	**6,300**	4,910	4,120	**28.3**	19.2
Equity in net income (loss) of affiliates	**(128)**	98	79	**—**	24.1
Other income (expense) – net	**618**	277	(52)	**—**	—
Income Before Income Taxes	**15,139**	19,812	20,692	**(23.6)**	(4.3)
Net Income	**29,847**	13,333	13,687	**—**	(2.6)
Net Income Attributable to AT&T	**$ 29,450**	$ 12,976	$ 13,345	**—%**	(2.8)%

OVERVIEW

Operating revenues decreased $3,240, or 2.0%, in 2017 and increased $16,985, or 11.6%, in 2016.

Service revenues decreased $3,287, or 2.2%, in 2017 and increased $17,207, or 13.1%, in 2016. The decrease in 2017 was primarily due to continued declines in legacy wireline voice and data products and lower wireless service revenues reflecting increased adoption of unlimited plans. Additionally, we waived $243 in service revenues for customers in areas affected by natural disasters during 2017. These decreases were partially offset by increased revenues from video and strategic business services. The increase in 2016 was primarily due to our 2015 acquisition of DIRECTV and increases in IP broadband and fixed strategic service revenues, partially offset by declines in our legacy wireline voice and data products and lower wireless service revenues from competitive offerings that entitle customers to lower monthly service rates.

In 2018, we will continue to see some pressure from legacy revenues and some early challenges with wireless service revenues until we lap the first year of unlimited offerings, and then move toward improvements in wireless service revenues.

Equipment revenues increased $47, or 0.3%, in 2017 and decreased $222, or 1.5%, in 2016. The increase in 2017 was primarily due to increased sales volume in Mexico offset by declines in U.S. wireless sales. The decline in 2016 reflects fewer domestic wireless handset sales and additional promotional offers, partially offset by the sale of higher-priced devices. Equipment revenue is becoming increasingly unpredictable as many customers are bringing their own devices or choosing to upgrade devices less frequently.

Operating expenses increased $158, or 0.1%, in 2017 and $17,423, or 14.3%, in 2016.

Equipment expenses decreased $48, or 0.3%, in 2017 and $511, or 2.7%, in 2016. The decrease in 2017 was driven by lower customer premises equipment contracts when compared to the prior year, which was largely offset by increased wireless device sales, despite pressure from customers upgrading less frequently. More promotional offers, and the sale of higher-priced devices during the fourth quarter of 2017, contributed to higher domestic wireless equipment costs, and higher sales volume from our Mexico wireless customers also offset expense declines. Expense decreases in 2016 were primarily driven by lower domestic wireless handset sales, partially offset by increased sales volumes in Mexico.

Broadcast, programming and operations expenses increased $1,308, or 6.6%, in 2017 and $7,855, or 65.5%, in 2016. The increase in 2017 reflected annual content cost increases and additional programming costs. The increase in 2016 was due to our acquisition of DIRECTV.

Other cost of services expenses decreased $765, or 2.0%, in 2017 and increased $2,494, or 7.0%, in 2016. The decrease in 2017 reflected our continued focus on cost management and the utilization of automation and digitalization where appropriate. Expense declines also reflect lower traffic compensation and wireless interconnect costs, partially offset by an increase in amortization of deferred customer fulfillment costs.

The expense increase in 2016 was primarily due to our acquisition of DIRECTV and an increase in noncash financing-related costs associated with our pension and postretirement benefits. The expense increase also reflects a $1,185 change in our annual pension and postemployment benefit actuarial adjustment, which consisted of a loss in 2016 and a gain in 2015. These increases were partially offset by lower comparative network rationalization charges, net expenses associated with our deferral and amortization of customer fulfillment costs, and network and access charges.

Selling, general and administrative expenses decreased $1,430, or 3.9%, in 2017 and increased $3,428, or 10.4%, in 2016. The decrease in 2017 was attributable to our disciplined cost management, lower selling and commission costs from reduced volumes and lower marketing costs. These decreases were partially offset by lower gains on wireless spectrum transactions during 2017 than in 2016, costs arising from natural disasters and a special bonus paid to employees upon enactment of U.S. corporate tax reform.

The increase in 2016 was primarily due to our acquisitions in 2015 and increased advertising activity. Expenses also include an increase of $1,991 as a result of recording an actuarial loss in 2016 and an actuarial gain in 2015. These increases were offset by noncash gains of $714 on wireless spectrum transactions, lower wireless commissions and reduced employee separation costs.

Asset abandonments and impairments expense increased $2,553 in 2017 and $326 in 2016. The increase in 2017 was primarily due to a fourth-quarter 2017 noncash charge of $2,883 resulting from the abandonment of certain copper assets that will not be necessary to support future network activity due to fiber deployment plans in particular markets. During 2016, we recorded additional noncash charges for the impairment of wireless and other assets, when compared to 2015. (See Note 6)

Depreciation and amortization expense decreased $1,460, or 5.6%, in 2017 and increased $3,831, or 17.4%, in 2016. Depreciation expense decreased $895, or 4.3%, in 2017. The decreases in 2017 were primarily due to our fourth-quarter 2016 change in estimated useful lives and salvage values of certain assets associated with our transition to an IP-based network, which accounted for $845 of the decrease. Also contributing to lower depreciation expenses were network assets becoming fully depreciated. These decreases were partially offset by increases resulting from ongoing capital spending for upgrades and expansion.

Depreciation expense in 2016 increased $1,336, or 6.9%, primarily due to the acquisition of DIRECTV and ongoing capital investment for network upgrades. The increases were partially offset by a $462 decrease associated with our 2016 change in the estimated useful lives and salvage values of certain assets associated with our transition to an IP-based network.

Amortization expense decreased $565, or 10.9%, in 2017 and increased $2,495, or 92.0%, in 2016. The 2017 decrease was due to lower amortization of intangibles for customer lists associated with acquisitions. The 2016 increase was due to the amortization of intangibles from the previously mentioned acquisitions.

Operating income decreased $3,398, or 14.0%, in 2017 and $438, or 1.8%, in 2016. Our operating margin was 13.0% in 2017, compared to 14.9% in 2016 and 16.9% in 2015. Contributing to the decrease in 2017 were asset abandonments and impairments of $2,914 compared to $361 in 2016 and higher costs due to natural disasters. These decreases were partially offset by disciplined cost management and the utilization of digitalization and automation in the business. Contributing $3,176 to the decrease in operating income in 2016 was a noncash actuarial loss of $1,024 compared to an actuarial gain of $2,152 in 2015. These decreases were partially offset by continued efforts to reduce operating costs and achieve merger synergies.

Interest expense increased $1,390, or 28.3%, in 2017 and $790, or 19.2%, in 2016. The increase in 2017 was primarily due to higher debt balances in anticipation of closing our acquisition of Time Warner Inc. (Time Warner) and an increase in average interest rates when compared to the prior year. Financing fees related to pending acquisitions and debt exchange costs also contributed to higher interest expense in 2017. The increase in 2016 was primarily due to higher average interest rates and higher average debt balances, including debt issued and debt acquired in connection with our acquisition of DIRECTV. Interest expense is expected to increase in 2018 due to lower capitalized interest as spectrum associated with our network deployment plans is put into service.

Equity in net income of affiliates decreased $226 in 2017 and increased $19, or 24.1%, in 2016. The decrease in 2017 was predominantly due to losses from our legacy publishing business (which we sold in June 2017). The increase in 2016 was primarily due to the overall growth in income from our investments in video-related businesses. (See Note 8)

Other income (expense) – net increased $341 in 2017 and $329 in 2016. The increases were primarily due to higher net gains from the sale of non-strategic assets and investments of $98 and $271, and growth in interest and dividend income of $261 and $23, respectively. Our interest and dividend income in 2017 includes interest on cash held in anticipation of closing our acquisition of Time Warner.

Income tax expense decreased $21,187 in 2017 and $526, or 7.5%, in 2016. The decrease in 2017 was primarily due to the enactment of U.S. corporate tax reform, resulting in the remeasurement of our deferred tax obligation using the 21% U.S. federal tax rate from the previous 35% rate. The decrease in 2016 was primarily due to a change in income before income taxes. Our effective tax rate was (97.2)% in 2017, 32.7% in 2016 and 33.9% in 2015.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21% and implements a territorial tax system. Accounting Standards Codification (ASC) 740, "Income Taxes," requires that the effects of changes in tax rates and laws be recognized in the period in which the legislation is enacted. As a result, we decreased our 2017 tax expense by $20,271 primarily related to the remeasurement of the net deferred tax liabilities at the new lower federal tax rate, $816 of which represented the change in statutory rates on items deductible in the fourth-quarter. The effects related to foreign earnings of the one-time transition tax and new territorial tax system do not create material impacts to the effective tax rate and total tax expense. (See Note 11)

The provisions of the Act, which will have a positive impact on our effective tax rate in 2018 and subsequent years, are expected to reduce our effective tax rate in 2018 to approximately 23% (excluding any one-time items).

Segment Results

Our segments are strategic business units that offer different products and services over various technology platforms and/or in different geographies that are managed accordingly. Our segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. We analyze our segments based on Segment Contribution, which consists of operating income, excluding acquisition-related costs and other significant items, and equity in net income (loss) of affiliates for investments managed within each segment. Each segment's percentage calculation of total segment operating revenue and income is derived from our segment results table in Note 4, and may total more than 100 percent due to losses in one or more segments. We have four reportable segments: (1) Business Solutions, (2) Entertainment Group, (3) Consumer Mobility and (4) International.

We also evaluate segment performance based on EBITDA and/or EBITDA margin, which is defined as Segment Contribution, excluding equity in net income (loss) of affiliates and depreciation and amortization. We believe EBITDA to be a relevant and useful measurement to our investors as it is part of our internal management reporting and planning processes and it is an important metric that management uses to evaluate operating performance. EBITDA does not give effect to cash used for debt service requirements and thus does not reflect available funds for distributions, reinvestment or other discretionary uses. EBITDA margin is EBITDA divided by total revenues.

The ***Business Solutions segment*** accounted for approximately 43% of our 2017 total segment operating revenues compared to 44% in 2016 and 54% of our 2017 total Segment Contribution as compared to 52% in 2016. This segment provides services to business customers, including multinational companies; governmental and wholesale customers; and individual subscribers who purchase wireless services through employer-sponsored plans. We provide advanced IP-based services including Virtual Private Networks (VPN); Ethernet-related products; FlexWare, a service that relies on Software Defined Networking (SDN) and Network Functions Virtualization (NFV) to provide application-based routing, and broadband, collectively referred to as fixed strategic services; as well as traditional data and voice products. We utilize our wireless and wired networks to provide a complete communications solution to our business customers.

The ***Entertainment Group segment*** accounted for approximately 32% of our total segment operating revenues in 2017 and 2016 and 18% of our 2017 total Segment Contribution as compared to 19% in 2016. This segment provides video, internet, voice communication, and interactive and targeted advertising services to customers located in the United States or in U.S. territories. We utilize our IP-based and copper wired network and our satellite technology.

The ***Consumer Mobility segment*** accounted for approximately 20% of our total segment operating revenues in 2017 and 2016 and 29% of our 2017 total Segment Contribution as compared to 31% in 2016. This segment provides nationwide wireless service to consumers, wholesale and resale wireless subscribers located in the United States or in U.S. territories. We utilize our network to provide voice and data services, including high-speed internet and home monitoring services over wireless devices.

The ***International segment*** accounted for approximately 5% of our 2017 total segment operating revenues as compared to 4% in 2016. This segment provides entertainment services in Latin America and wireless services in Mexico. Video entertainment services are provided to primarily residential customers using satellite technology. We utilize our regional and national networks in Mexico to provide consumer and business customers with wireless data and voice communication services. Our international subsidiaries conduct business in their local currency, and operating results are converted to U.S. dollars using official exchange rates. Our International segment is subject to foreign currency fluctuations (operations in countries with highly inflationary economies consider the U.S. dollar as the functional currency).

Our operating assets are utilized by multiple segments and consist of our wireless and wired networks as well as our satellite fleet. Our domestic communications business strategies reflect bundled product offerings that increasingly cut across product lines and utilize our asset base. Therefore, asset information and capital expenditures by segment are not presented. Depreciation is allocated based on asset utilization by segment. In expectation of the close of our acquisition of Time Warner, we are beginning to realign our operations and strategies. We are pushing down administrative activities into the business units to better manage costs and serve our customers.

Business Solutions
Segment Results

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Segment operating revenues					
Wireless service	**$31,902**	$31,850	$30,687	**0.2%**	3.8%
Fixed strategic services	**12,227**	11,431	10,383	**7.0**	10.1
Legacy voice and data services	**13,931**	16,370	18,546	**(14.9)**	(11.7)
Other service and equipment	**3,451**	3,566	3,559	**(3.2)**	0.2
Wireless equipment	**7,895**	7,771	7,952	**1.6**	(2.3)
Total Segment Operating Revenues	**69,406**	70,988	71,127	**(2.2)**	(0.2)
Segment operating expenses					
Operations and support	**42,929**	44,330	44,946	**(3.2)**	(1.4)
Depreciation and amortization	**9,326**	9,832	9,789	**(5.1)**	0.4
Total Segment Operating Expenses	**52,255**	54,162	54,735	**(3.5)**	(1.0)
Segment Operating Income	**17,151**	16,826	16,392	**1.9**	2.6
Equity in Net Income (Loss) of Affiliates	**(1)**	—	—	**—**	—
Segment Contribution	**$17,150**	$16,826	$16,392	**1.9%**	2.6%

The following tables highlight other key measures of performance for the Business Solutions segment:

				Percent Change	
At December 31 (in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Business Wireless Subscribers					
Postpaid	**51,811**	50,688	48,290	**2.2%**	5.0%
Reseller	**87**	65	85	**33.8**	(23.5)
Connected devices[1]	**38,534**	30,649	25,284	**25.7**	21.2
Total Business Wireless Subscribers	**90,432**	81,402	73,659	**11.1**	10.5
Business IP Broadband Connections	**1,025**	977	911	**4.9%**	7.2%

				Percent Change	
(in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Business Wireless Net Additions[2,4]					
Postpaid	**147**	759	1,203	**(80.6)%**	(36.9)%
Reseller	**7**	(33)	13	**—**	—
Connected devices[1]	**9,639**	5,330	5,315	**80.8**	0.3
Business Wireless Net Subscriber Additions	**9,793**	6,056	6,531	**61.7**	(7.3)
Business Wireless Postpaid Churn[2,3,4]	**1.04%**	1.00%	0.99%	**4 BP**	1 BP
Business IP Broadband Net Additions	**48**	66	89	**(27.3)%**	(25.8)%

[1] Includes data-centric devices such as session-based tablets, monitoring devices and automobile systems. Excludes postpaid tablets.
[2] Excludes migrations between AT&T segments and/or subscriber categories and acquisition-related additions during the period.
[3] Calculated by dividing the aggregate number of wireless subscribers who canceled service during a period divided by the total number of wireless subscribers at the beginning of that period. The churn rate for the period is equal to the average of the churn rate for each month of that period.
[4] 2017 excludes the impact of the 2G shutdown, which is reflected in beginning of period subscribers.

Operating revenues decreased $1,582, or 2.2% in 2017 and $139, or 0.2%, in 2016. Revenue declines in 2017 reflect technological shifts away from legacy products. These decreases were partially offset by fixed strategic services, which represented 41% of non-wireless revenues in 2017 and 36% in 2016. The decrease in 2016 was driven by continued declines in our legacy voice and data services and lower wireless equipment revenues, partially offset by continued growth in fixed strategic and wireless services. Our revenues continued to be pressured by slow fixed business investment, although we expect that trend to change with the enactment of corporate tax reform.

Wireless service revenues increased $52, or 0.2%, in 2017 and $1,163, or 3.8%, in 2016. The increase in 2017 was primarily due to the migration of customers from our Consumer Mobility segment, partially offset by customers shifting to our unlimited plans. The increase in 2016 reflected smartphone and tablet gains as well as customer migrations from our Consumer Mobility segment. In 2018, we will continue to see some early challenges with wireless service revenue until we lap the first year of unlimited plans, and then move toward wireless service revenue improvements.

Business wireless subscribers increased 11.1%, to 90.4 million subscribers at December 31, 2017 compared to 10.5%, to 81.4 million subscribers at December 31, 2016. Postpaid subscribers increased 2.2% in 2017 compared to 5.0% in 2016 reflecting the addition of new customers as well as migrations from our Consumer Mobility segment, partially offset by continuing competitive pressures in the industry. Connected devices, which have lower average revenue per average subscriber (ARPU) and churn, increased 25.7% from the prior year reflecting growth in our connected car business and other data-centric devices that utilize the network to connect and control physical devices using embedded computing systems and/or software, commonly called the Internet of Things (IoT).

The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. Business wireless postpaid churn increased to 1.04% in 2017 from 1.00% in 2016 and 0.99% in 2015.

Fixed strategic services revenues increased $796, or 7.0%, in 2017 and $1,048, or 10.1%, in 2016. Our revenues increased in 2017 and 2016 due to: Ethernet increases of $275 and $226, VoIP increases of $205 and $205, and Dedicated Internet services increases of $198 and $231, respectively.

Due to advances in technology, our most advanced business solutions are subject to change periodically. We review and evaluate our fixed strategic service offerings annually, which may result in an updated definition and the recast of our historical financial information to conform to the current-period presentation. Any modifications will be reflected in the first quarter.

Legacy voice and data service revenues decreased $2,439, or 14.9%, in 2017 and $2,176, or 11.7%, in 2016. Traditional data revenues in 2017 and 2016 decreased $1,130 and $1,186 and long-distance and local revenues decreased $1,309 and $990, respectively. The decreases were primarily due to lower demand as customers continue to shift to our more advanced IP-based offerings or our competitors.

Other service and equipment revenues decreased $115, or 3.2%, in 2017 and increased $7, or 0.2%, in 2016. Other service revenues include project-based revenue, which is nonrecurring in nature, as well as revenues from other managed services, outsourcing, government professional service and customer premises equipment. The decrease in 2017, and increase in 2016, were primarily due to the timing of nonrecurring customer premises equipment contracts.

Wireless equipment revenues increased $124, or 1.6%, in 2017 and decreased $181, or 2.3%, in 2016. The increase in 2017 was primarily due to an increase in device upgrades and increased sales of higher-priced smartphones, largely offset by a change in customer buying habits and promotional offers. The decrease in 2016 was primarily due to a decrease in handsets sold and increased promotional offers, partially offset by an increase in sales under our equipment installment agreements, including our AT&T Next℠ (AT&T Next) program. We expect wireless equipment revenues to be pressured in 2018 as customers are retaining their handsets for longer periods of time.

Operations and support expenses decreased $1,401, or 3.2%, in 2017 and $616, or 1.4%, in 2016. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel costs, such as compensation and benefits.

Decreased operations and support expenses in 2017 were primarily due to efforts to automate and digitalize our support activities, improving results $723. As of December 31, 2017, approximately 55% of our network functions have been moved to software-based systems. Expense reductions also reflect lower traffic compensation and wireless interconnect costs, resulting in declines of $233. Lower administrative costs also contributed to decreased expenses in 2017. Partially offsetting the decreases were higher marketing cost and increased wireless handset insurance cost.

Decreased operations and support expenses in 2016 were primarily due to legacy product declines, workforce reductions, and other cost-reduction initiatives that improved results $283, and net expense reductions associated with fulfillment cost deferrals, which reduced expenses $219. Lower wireless sales volume and average commission rates, including those paid under the equipment installment programs, combined with fewer handset upgrade transactions reduced expenses $225, and lower wireless handset volumes, which were partially offset by the sale of higher-priced wireless devices and higher-priced customer premises equipment, reduced equipment cost $186. Partially offsetting the decreases were higher wireless handset insurance costs of $195 resulting from increased claim rates and costs per claim and the impact of Connect America and High Cost Funds' receipts.

Depreciation expense decreased $506, or 5.1%, in 2017 and increased $43, or 0.4%, in 2016. The decrease in 2017 was primarily due to our fourth-quarter 2016 change in estimated useful lives and salvage value of certain network assets. Also contributing to lower depreciation expenses were network assets becoming fully depreciated, partially offset by ongoing capital spending for network upgrades and expansion.

The increase in 2016 was primarily due to ongoing capital spending for network upgrades and expansion and accelerating depreciation related to the shutdown of our U.S. 2G network, partially offset by fully depreciated assets. The increase in 2016 was largely offset by the change in estimated useful lives and salvage values of certain assets associated with our transition to an IP-based network.

Operating income increased $325, or 1.9%, in 2017 and $434, or 2.6%, in 2016. Our Business Solutions segment operating income margin was 24.7% in 2017, compared to 23.7% in 2016 and 23.0% in 2015. Our Business Solutions EBITDA margin was 38.1% in 2017, compared to 37.6% in 2016 and 36.8% in 2015.

Entertainment Group
Segment Results

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Segment operating revenues					
Video entertainment	**$36,728**	$36,460	$20,271	**0.7%**	79.9%
High-speed internet	**7,674**	7,472	6,601	**2.7**	13.2
Legacy voice and data services	**3,920**	4,829	5,914	**(18.8)**	(18.3)
Other service and equipment	**2,376**	2,534	2,508	**(6.2)**	1.0
Total Segment Operating Revenues	**50,698**	51,295	35,294	**(1.2)**	45.3
Segment operating expenses					
Operations and support	**39,420**	39,338	28,345	**0.2**	38.8
Depreciation and amortization	**5,623**	5,862	4,945	**(4.1)**	18.5
Total Segment Operating Expenses	**45,043**	45,200	33,290	**(0.3)**	35.8
Segment Operating Income (Loss)	**5,655**	6,095	2,004	**(7.2)**	—
Equity in Net Income (Loss) of Affiliates	**(30)**	9	(4)	**—**	—
Segment Contribution	**$ 5,625**	$ 6,104	$ 2,000	**(7.8)%**	—%

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

				Percent Change	
At December 31 (in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Video Connections					
Satellite	**20,458**	21,012	19,784	**(2.6)%**	6.2%
U-verse	**3,631**	4,253	5,614	**(14.6)**	(24.2)
DIRECTV NOW[1]	**1,155**	267	—	**—**	—
Total Video Connections	**25,244**	25,532	25,398	**(1.1)**	0.5
Broadband Connections					
IP	**13,462**	12,888	12,356	**4.5**	4.3
DSL	**888**	1,291	1,930	**(31.2)**	(33.1)
Total Broadband Connections	**14,350**	14,179	14,286	**1.2**	(0.7)
Retail Consumer Switched Access Lines	**4,774**	5,853	7,286	**(18.4)**	(19.7)
U-verse Consumer VoIP Connections	**5,222**	5,425	5,212	**(3.7)**	4.1
Total Retail Consumer Voice Connections	**9,996**	11,278	12,498	**(11.4)%**	(9.8)%

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

				Percent Change	
(in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Video Net Additions					
Satellite[1]	**(554)**	1,228	240	**—%**	—%
U-verse[1]	**(622)**	(1,361)	(306)	**54.3**	—
DIRECTV NOW[2]	**888**	267	—	**—**	—
Net Video Additions	**(288)**	134	(66)	**—**	—
Broadband Net Additions					
IP	**574**	532	973	**7.9**	(45.3)
DSL	**(403)**	(639)	(1,130)	**36.9**	43.5
Net Broadband Additions	**171**	(107)	(157)	**—%**	31.8%

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

Operating revenues decreased $597, or 1.2%, in 2017 and increased $16,001, or 45.3% in 2016. The decrease in 2017 was largely due to lower revenues from legacy voice, data products, and other services, partially offset by growth in revenues from video and IP broadband services. The increase in 2016 was largely due to our acquisition of DIRECTV in July 2015 and continued growth in consumer IP broadband, which offset lower revenues from legacy voice and data products.

As consumers continue to demand more mobile access to video, we provide streaming access to our subscribers, including mobile access for existing satellite and AT&T U-verse® (U-verse) subscribers. In November 2016, we launched DIRECTV NOW, our video streaming option that does not require either satellite or U-verse service (commonly called over-the-top video service).

Video entertainment revenues increased $268, or 0.7%, in 2017 and $16,189, or 79.9%, in 2016. These increases reflect a 2.7% and 5.6% increase in average revenue per linear (combined satellite and U-verse) video connection. Advertising revenues also increased $111, or 7.3%, in 2017 and $367, or 32.1%, in 2016. As of December 31, 2017, about 85% of our linear video subscribers were on the DIRECTV platform, compared to 80% at December 31, 2016. The increase in 2016 was primarily related to our acquisition of DIRECTV.

Linear video subscriber losses and associated margin pressure continued their recent trend, with some of the losses due to the impact from hurricanes as well as tightening of our credit policies. We are also seeing the impact of customers wanting mobile and over-the-top offerings, which is contributing to growth in DIRECTV NOW connections and partially offsetting linear video subscriber losses. DIRECTV NOW connections continue to grow as we add eligible devices and increase content choices. Our strategy to bundle services has positively impacted subscriber trends and churn, with customers who bundle our wireless and video services having nearly half the rate of churn as satellite customers with a single service.

High-speed internet revenues increased $202, or 2.7%, in 2017 and $871, or 13.2%, in 2016. Average revenue per IP broadband connection (ARPU) decreased 1.9% in 2017 and increased 7.3% in 2016. When compared to 2016, IP broadband subscribers increased 4.5%, to 13.5 million subscribers at December 31, 2017. When compared to 2015, IP broadband subscribers increased 4.3%, to 12.9 million subscribers at December 31, 2016. Our bundling strategy is also helping to lower churn for broadband subscribers, with subscribers who bundle broadband with another AT&T service having about half the churn of broadband-only subscribers. To compete more effectively against other broadband providers in the midst of ongoing declines in DSL subscribers, we continued to deploy our all-fiber, high-speed wireline network, which has improved customer retention rates. We also expect our planned 5G national deployment to aid our ability to provide more locations with competitive broadband speeds.

Legacy voice and data service revenues decreased $909, or 18.8%, in 2017 and $1,085, or 18.3%, in 2016. For 2017, legacy voice and data services represented approximately 8% of our total Entertainment Group revenue compared to 9% for 2016 and 17% for 2015 and reflect decreases of $610 and $663 in local voice and long-distance, and $299 and $422 in traditional data revenues. The decreases reflect the continued migration of customers to our more advanced IP-based offerings or to competitors. At December 31, 2017, approximately 6% of our broadband connections were DSL compared to 9% at December 31, 2016.

Operations and support expenses increased $82, or 0.2%, in 2017 and $10,993, or 38.8%, in 2016. Operations and support expenses consist of costs associated with providing video content, and expenses incurred to provide our products and services, which include costs of operating and maintaining our networks, as well as personnel charges for compensation and benefits.

Increased operations and support expenses in 2017 were primarily due to annual content cost increases, deferred customer fulfillment cost amortization and video platform development costs. Offsetting these increases were the impacts of our ongoing focus on cost efficiencies and merger synergies, as well as workforce reductions and lower marketing costs.

Increased operations and support expenses in 2016 were primarily due to our 2015 acquisition of DIRECTV, which increased expenses by $11,748, and reflected pressure from cost increases for the NFL SUNDAY TICKET®. The DIRECTV-related increases were also due to higher content costs, customer support and service-related charges, and advertising expenses.

Depreciation expenses decreased $239, or 4.1%, in 2017 and increased $917, or 18.5%, in 2016. The decrease in 2017 was primarily due to our fourth-quarter 2016 change in estimated useful lives and salvage values of certain assets. Also contributing to lower depreciation expenses were network assets becoming fully depreciated, offset by ongoing capital spending for network upgrades and expansion.

The increase in 2016 was primarily due to our acquisition of DIRECTV and ongoing capital spending for network upgrades and expansion, partially offset by fully depreciated assets and a change to the estimated useful lives and salvage value of certain assets associated with our transition to an IP-based network.

Operating income decreased $440 in 2017 and increased $4,091 in 2016. Our Entertainment Group segment operating income margin was 11.2% in 2017, 11.9% in 2016 and 5.7% in 2015. Our Entertainment Group EBITDA margin was 22.2% in 2017, 23.3% in 2016 and 19.7% in 2015.

Consumer Mobility

Segment Results

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Segment operating revenues					
Service	**$26,053**	$27,536	$29,150	**(5.4)%**	(5.5)%
Equipment	**5,499**	5,664	5,916	**(2.9)**	(4.3)
Total Segment Operating Revenues	**31,552**	33,200	35,066	**(5.0)**	(5.3)
Segment operating expenses					
Operations and support	**18,966**	19,659	21,477	**(3.5)**	(8.5)
Depreciation and amortization	**3,507**	3,716	3,851	**(5.6)**	(3.5)
Total Segment Operating Expenses	**22,473**	23,375	25,328	**(3.9)**	(7.7)
Segment Operating Income	**9,079**	9,825	9,738	**(7.6)**	0.9
Equity in Net Income of Affiliates	**—**	—	—	**—**	—
Segment Contribution	**$ 9,079**	$ 9,825	$ 9,738	**(7.6)%**	0.9%

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

				Percent Change	
At December 31 (in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Consumer Mobility Subscribers					
Postpaid	**26,064**	27,095	28,814	**(3.8)%**	(6.0)%
Prepaid[2]	**15,335**	13,536	11,548	**13.3**	17.2
Branded	**41,399**	40,631	40,362	**1.9**	0.7
Reseller	**9,279**	11,884	13,690	**(21.9)**	(13.2)
Connected devices[1,2]	**457**	942	929	**(51.5)**	1.4
Total Consumer Mobility Subscribers	**51,135**	53,457	54,981	**(4.3)%**	(2.8)%

[1] Includes data-centric devices such as session-based tablets, monitoring devices and postpaid automobile systems. Excludes postpaid tablets. See (2) below.
[2] Beginning in 2017, we are reporting prepaid IoT connections, which primarily consist of connected cars, as a component of prepaid subscribers.

				Percent Change	
(in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Consumer Mobility Net Additions[1,4]					
Postpaid	**447**	359	463	**24.5%**	(22.5)%
Prepaid[5]	**1,013**	1,575	1,364	**(35.7)**	15.5
Branded Net Additions	**1,460**	1,934	1,827	**(24.5)**	5.9
Reseller	**(1,878)**	(1,813)	(168)	**(3.6)**	—
Connected devices[2,5]	**52**	19	(131)	**—**	—
Consumer Mobility Net Subscriber Additions	**(366)**	140	1,528	**—%**	(90.8)%
Total Churn[1,3,4]	**2.36%**	2.15%	1.94%	**21 BP**	21 BP
Postpaid Churn[1,3,4]	**1.17%**	1.19%	1.25%	**(2) BP**	(6) BP

[1] Excludes migrations between AT&T segments and/or subscriber categories and acquisition-related additions during the period.
[2] Includes data-centric devices such as session-based tablets, monitoring devices and postpaid automobile systems. Excludes postpaid tablets. See (5) below.
[3] Calculated by dividing the aggregate number of wireless subscribers who canceled service during a month divided by the total number of wireless subscribers at the beginning of that month. The churn rate for the period is equal to the average of the churn rate for each month of that period.
[4] 2017 excludes the impact of the 2G shutdown and a true-up to the reseller subscriber base, which is reflected in beginning of period subscribers.
[5] Beginning in 2017, we are reporting prepaid IoT connections, which primarily consist of connected cars, as a component of prepaid subscribers, resulting in 153 additional prepaid net adds in the year.

Operating revenues decreased $1,648, or 5.0%, in 2017 and $1,866, or 5.3%, in 2016. Decreased revenues reflect declines in postpaid service revenues due to customers migrating to our Business Solutions segment and choosing unlimited plans, partially offset by higher prepaid service revenues. Our business wireless offerings allow for individual subscribers to purchase wireless services through employer-sponsored plans for a reduced price. The migration of these subscribers to the Business Solutions segment negatively impacted our consumer postpaid subscriber total and service revenue growth.

Service revenue decreased $1,483, or 5.4%, in 2017 and $1,614, or 5.5%, in 2016. The decreases were largely due to postpaid customers continuing to shift to discounted monthly service charges under our unlimited plans and the migration of subscribers to Business Solutions. Revenues from postpaid customers declined $1,783, or 9.0%, in 2017 and $2,285, or 10.4%, in 2016. Without the migration of customers to Business Solutions, postpaid wireless revenues would have decreased approximately 5.0% and 5.6%, respectively. The decreases were partially offset by higher prepaid service revenues of $715, or 12.7%, in 2017 and $953, or 20.4%, in 2016 primarily from growth in Cricket and AT&T PREPAID℠ subscribers. In 2018, we will continue to see some early challenges with wireless service revenue until we lap the first year of unlimited plans, and then move toward wireless service revenue improvements.

Equipment revenue decreased $165, or 2.9%, in 2017 and $252, or 4.3%, in 2016. The decreases in equipment revenues resulted from lower handset sales and upgrades, partially offset by the sale of higher-priced devices. As previously discussed, equipment revenue is becoming increasingly unpredictable as customers are choosing to upgrade devices less frequently or bring their own.

Operations and support expenses decreased $693, or 3.5%, in 2017 and $1,818, or 8.5%, in 2016. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel expenses, such as compensation and benefits.

Decreased operations and support expenses in 2017 were primarily due to lower volumes of wireless equipment sales and upgrades, which decreased equipment and selling and commission costs, lower marketing and advertising costs resulting from the timing of scheduled ad campaigns and integrated advertising and other operational efficiencies.

Decreased operations and support expenses in 2016 were primarily due to lower volumes of wireless equipment sales and upgrades, which decreased equipment and selling and commission costs, lower network costs attributable to transitioning to more efficient Ethernet/IP-based technologies and other operational efficiencies.

Depreciation expense decreased $209, or 5.6%, in 2017 and $135, or 3.5%, in 2016. The decreases in both years were primarily due to fully depreciated assets, partially offset by ongoing capital spending for network upgrades and expansion.

Operating income decreased $746, or 7.6%, in 2017 and increased $87, or 0.9%, in 2016. Our Consumer Mobility segment operating income margin was 28.8% in 2017, 29.6% in 2016 and 27.8% in 2015. Our Consumer Mobility EBITDA margin was 39.9% in 2017, 40.8% in 2016 and 38.8% in 2015.

International

Segment Results

	2017	2016	2015	Percent Change 2017 vs. 2016	Percent Change 2016 vs. 2015
Segment operating revenues					
Video entertainment	**$5,456**	$4,910	$2,151	**11.1%**	—%
Wireless service	**2,047**	1,905	1,647	**7.5**	15.7
Wireless equipment	**766**	468	304	**63.7**	53.9
Total Segment Operating Revenues	**8,269**	7,283	4,102	**13.5**	77.5
Segment operating expenses					
Operations and support	**7,404**	6,830	3,930	**8.4**	73.8
Depreciation and amortization	**1,218**	1,166	655	**4.5**	78.0
Total Segment Operating Expenses	**8,622**	7,996	4,585	**7.8**	74.4
Segment Operating Income (Loss)	**(353)**	(713)	(483)	**50.5**	(47.6)
Equity in Net Income (Loss) of Affiliates	**87**	52	(5)	**67.3**	—
Segment Contribution	**$ (266)**	$ (661)	$ (488)	**59.8%**	(35.5)%

The following tables highlight other key measures of performance for the International segment:

At December 31 (in 000s)	2017	2016	2015	Percent Change 2017 vs. 2016	Percent Change 2016 vs. 2015
Mexico Wireless Subscribers					
Postpaid	**5,498**	4,965	4,289	**10.7%**	15.8%
Prepaid	**9,397**	6,727	3,995	**39.7**	68.4
Branded	**14,895**	11,692	8,284	**27.4**	41.1
Reseller	**204**	281	400	**(27.4)**	(29.8)
Total Mexico Wireless Subscribers	**15,099**	11,973	8,684	**26.1**	37.9
Latin America Satellite Subscribers					
PanAmericana	**8,270**	7,206	7,066	**14.8**	2.0
SKY Brazil[1]	**5,359**	5,249	5,444	**2.1**	(3.6)
Total Latin America Satellite Subscribers	**13,629**	12,455	12,510	**9.4%**	(0.4)%

[1] Excludes subscribers of our International segment equity investments in SKY Mexico, in which we own a 41.3% stake. SKY Mexico had 8.0 million subscribers at September 30, 2017, 8.0 and 7.3 million subscribers at December 31, 2016 and 2015, respectively.

(in 000s)	2017	2016	2015	Percent Change 2017 vs. 2016	Percent Change 2016 vs. 2015
Mexico Wireless Net Additions					
Postpaid	**533**	677	177	**(21.3)%**	—%
Prepaid	**2,670**	2,732	(169)	**(2.3)**	—
Branded Net Additions	**3,203**	3,409	8	**(6.0)**	—
Reseller	**(77)**	(120)	(104)	**35.8**	(15.4)
Mexico Wireless Net Subscriber Additions	**3,126**	3,289	(96)	**(5.0)**	—
Latin America Satellite Net Additions[1]					
PanAmericana	**232**	140	76	**65.7**	84.2
SKY Brazil	**(190)**	(195)	(223)	**2.6**	12.6
Latin America Satellite Net Subscriber Additions[2]	**42**	(55)	(147)	**—%**	62.6%

[1] In 2017, we updated the methodology used to account for prepaid video connections, which were reflected in beginning of period subscribers.
[2] SKY Mexico had net subscriber losses of 11 in the nine months ended September 30, 2017 and additions of 742 and 646 for the year ended December 31, 2016 and 2015, respectively.

Operating Results

Our International segment consists of the Latin American operations acquired with DIRECTV as well as our Mexican wireless operations. Video entertainment services are provided to primarily residential customers using satellite technology. Our international subsidiaries conduct business in their local currency and operating results are converted to U.S. dollars using official exchange rates. Our International segment is subject to foreign currency fluctuations.

Operating revenues increased $986, or 13.5%, in 2017 and 3,181, or 77.5%, in 2016. The increase in 2017 includes higher revenues of $546 from video services in Latin America and $440 from wireless service and equipment revenues in Mexico. The increase in 2016 includes higher revenues of $2,759 from video services in Latin America and $422 from wireless service and equipment revenues in Mexico. The growth in Latin America was primarily due to price increases driven primarily by macroeconomic conditions with mixed local currencies. Mexico wireless revenue improvements were primarily due to growth in equipment revenues as we have increased our subscriber base, partially offset by competitive pricing for services.

Operations and support expenses increased $574, or 8.4%, in 2017 and $2,900, or 73.8%, in 2016. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and providing video content and personnel expenses, such as compensation and benefits.

The increases in 2017 reflect higher charges in Latin America primarily due to higher programming and other operating costs, partially offset by foreign currency exchange rates and our reassessment of operating tax contingencies in Brazil. Increases in Mexico were primarily driven by higher operational costs, including expenses associated with our network expansion and foreign currency pressures.

The increases in 2016 were largely attributable to operations in Latin America reflecting our mid-2015 DIRECTV acquisition.

Depreciation expense increased $52, or 4.5%, in 2017 and $511, or 78.0%, in 2016. The increases were primarily due to updating the estimated asset lives for video equipment in Latin America and higher capital spending in Mexico.

Operating income increased $360, or 50.5%, in 2017 and decreased $230, or 47.6%, in 2016, and was negatively impacted by foreign exchange pressure. Our International segment operating income margin was (4.3)% in 2017, (9.8)% in 2016 and (11.8)% in 2015. Our International EBITDA margin was 10.5% in 2017, 6.2% in 2016 and 4.2% in 2015.

Supplemental Operating Information

As a supplemental discussion of our operating results, for comparison purposes, we are providing a view of our combined domestic wireless operations (AT&T Mobility). See “Discussion and Reconciliation of Non-GAAP Measure” for a reconciliation of these supplemental measures to the most directly comparable financial measures calculated and presented in accordance with U.S. generally accepted accounting principles.

AT&T Mobility Results

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Operating revenues					
Service	**$57,955**	$59,386	$59,837	**(2.4)%**	(0.8)%
Equipment	**13,394**	13,435	13,868	**(0.3)**	(3.1)
Total Operating Revenues	**71,349**	72,821	73,705	**(2.0)**	(1.2)
Operating expenses					
Operations and support	**43,255**	43,886	45,789	**(1.4)**	(4.2)
EBITDA	**28,094**	28,935	27,916	**(2.9)**	3.7
Depreciation and amortization	**8,027**	8,292	8,113	**(3.2)**	2.2
Total Operating Expenses	**51,282**	52,178	53,902	**(1.7)**	(3.2)
Operating Income	**$20,067**	$20,643	$19,803	**(2.8)%**	4.2%

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

				Percent Change	
At December 31 (in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Wireless Subscribers[1]					
Postpaid smartphones	**59,874**	59,096	58,073	**1.3%**	1.8%
Postpaid feature phones and data-centric devices	**18,001**	18,687	19,032	**(3.7)**	(1.8)
Postpaid	**77,875**	77,783	77,105	**0.1**	0.9
Prepaid[3]	**15,335**	13,536	11,548	**13.3**	17.2
Branded	**93,210**	91,319	88,653	**2.1**	3.0
Reseller	**9,366**	11,949	13,774	**(21.6)**	(13.2)
Connected devices[2,3]	**38,991**	31,591	26,213	**23.4**	20.5
Total Wireless Subscribers	**141,567**	134,859	128,640	**5.0**	4.8
Branded smartphones	**72,924**	70,817	67,200	**3.0**	5.4
Smartphones under our installment programs at end of period	**32,438**	30,688	26,670	**5.7%**	15.1%

[1] Represents 100% of AT&T Mobility wireless subscribers.
[2] Includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems. Excludes postpaid tablets. See (3) below.
[3] Beginning in 2017, we are reporting prepaid IoT connections, which primarily consist of connected cars, as a component of prepaid subscribers.

				Percent Change	
(in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Wireless Net Additions[1,4]					
Postpaid	**594**	1,118	1,666	**(46.9)%**	(32.9)%
Prepaid[5]	**1,013**	1,575	1,364	**(35.7)**	15.5
Branded Net Additions	**1,607**	2,693	3,030	**(40.3)**	(11.1)
Reseller	**(1,871)**	(1,846)	(155)	**(1.4)**	—
Connected devices[2,5]	**9,691**	5,349	5,184	**81.2**	3.2
Wireless Net Subscriber Additions	**9,427**	6,196	8,059	**52.1**	(23.1)
Smartphones sold under our installment programs during period	**16,667**	17,871	17,320	**(6.7)%**	3.2%
Total Churn[3,4]	**1.36%**	1.48%	1.39%	**(12) BP**	9 BP
Branded Churn[3,4]	**1.68%**	1.62%	1.63%	**6 BP**	(1) BP
Postpaid Churn[3,4]	**1.08%**	1.07%	1.09%	**1 BP**	(2) BP
Postpaid Phone-Only Churn[3,4]	**0.85%**	0.92%	0.99%	**(7) BP**	(7) BP

[1] Excludes acquisition-related additions during the period.
[2] Includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems. Excludes postpaid tablets. See (5) below.
[3] Calculated by dividing the aggregate number of wireless subscribers who canceled service during a month divided by the total number of wireless subscribers at the beginning of that month. The churn rate for the period is equal to the average of the churn rate for each month of that period.
[4] 2017 excludes the impact of the 2G shutdown and a true-up to the reseller subscriber base, which is reflected in beginning of period subscribers.
[5] Beginning in 2017, we are reporting prepaid IoT connections, which primarily consist of connected cars, as a component of prepaid subscribers, resulting in 153 additional prepaid net adds in the year.

Operating income decreased $576, or 2.8%, in 2017 and increased $840, or 4.2%, in 2016. The operating income margin of AT&T Mobility was 28.1% in 2017, 28.3% in 2016 and 26.9% in 2015. AT&T Mobility's EBITDA margin was 39.4% in 2017, 39.7% in 2016 and 37.9% in 2015. AT&T Mobility's EBITDA service margin was 48.5% in 2017, 48.7% in 2016 and 46.7% in 2015. (EBITDA service margin is operating income before depreciation and amortization, divided by total service revenues.)

Subscriber Relationships

As the wireless industry has matured, future wireless growth will increasingly depend on our ability to offer innovative services, plans, devices and to provide these services in bundled product offerings to best utilize a wireless network that has sufficient spectrum and capacity to support these innovations on as broad a geographic basis as possible. To attract and retain subscribers in a mature and highly competitive market, we have launched a wide variety of plans, including unlimited, as well as equipment installment programs. Beginning in 2017, we expanded our unlimited wireless data plans to make them available to customers that do not subscribe to our video services.

ARPU

Postpaid phone-only ARPU was $58.00 in 2017, compared to $59.45 and $60.45 in 2016 and 2015, respectively. Postpaid phone-only ARPU plus equipment installment billings was $68.75 in 2017, compared to $69.76 and $68.03 in 2016 and 2015, respectively. ARPU has been affected by customers shifting to unlimited plans, which decreases overage revenues; however, customers are adding additional devices helping to offset that decline.

Churn

The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. Total churn was lower in 2017. Postpaid churn was higher in 2017, driven by higher tablet churn. Postpaid phone-only churn was lower in 2017, despite competitive pressure in the industry.

Branded Subscribers

Branded subscribers increased 2.1% in 2017 and 3.0% in 2016. These increases reflect growth of 13.3% and 17.2% in prepaid subscribers and 0.1% and 0.9% in postpaid subscribers, respectively. Beginning in July 2017, we are reporting prepaid IoT connections, which primarily consist of connected cars where customers actively subscribe for vehicle connectivity, as a component of prepaid subscribers.

At December 31, 2017, 93% of our postpaid phone subscriber base used smartphones, compared to 91% at December 31, 2016, with the majority of phone sales during the last three years attributable to smartphones. Virtually all of our postpaid smartphone subscribers are on plans that provide for service on multiple devices at reduced rates, and such subscribers tend to have higher retention and lower churn rates. Device connections on our Mobile Share and unlimited wireless data plans now represent 87% of our postpaid customer base compared to 84% at December 31, 2016. Such offerings are intended to encourage existing subscribers to upgrade their current services and/or add connected devices, attract subscribers from other providers and/or minimize subscriber churn.

Our equipment installment purchase programs, including AT&T Next, allow for postpaid subscribers to purchase certain devices in installments over a specified period of time. Once certain conditions are met, AT&T Next subscribers may be eligible to trade in the original device for a new device and have the remaining unpaid balance paid or settled. For installment programs, we recognize equipment revenue at the time of the sale for the amount of the customer receivable, net of the fair value of the trade-in right guarantee and imputed interest. A significant percentage of our customers choosing equipment installment programs pay a lower monthly service charge, which results in lower service revenue recorded for these subscribers. At December 31, 2017, about 54% of the postpaid smartphone base is on an equipment installment program compared to nearly 52% at December 31, 2016. The majority of postpaid smartphone gross adds and upgrades for all periods presented were either equipment installment plans or Bring Your Own Device (BYOD). While BYOD customers do not generate equipment revenue or expense, the service revenue helps improve our margins.

Connected Devices

Connected Devices includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems. Connected device subscribers increased 23.4% during 2017 and 20.5% in 2016. During 2017, we added approximately 6.4 million wholesale connected cars through agreements with various carmakers, and experienced strong growth in other IoT connections as well. We believe that these connected car agreements give us the opportunity to create future retail relationships with the car owners.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

In 2018, excluding the impact of new revenue recognition rules (see Note 1) and pending acquisitions, we expect the following trends.

2018 Revenue Trends We expect our operating environment to remain highly competitive, as companies and consumers continue to demand instant connectivity, higher speeds and an integrated experience across their devices for both video and data. The recent U.S. federal tax law changes and current regulatory environment contribute to a more favorable landscape for investment in broadband services. The decrease in U.S. corporate tax rates as well as incentives for equipment investment should stimulate the economy and increase business investment overall. In 2018, we expect consolidated operating revenue pressure, driven by the ongoing shift from linear video to over-the-top and other on-demand services. We believe the intensely competitive wireless environment will continue, with service revenues improvements later in the year, and that our ability to offer integrated wireless, video and wireline services, along with continued growth in fixed strategic services, will largely offset revenue pressure. We expect legacy voice and data services will continue to decline.

2018 Expense Trends We intend to continue our focus on cost reductions, driving savings through automation, supply chain, benefit design, digitalizing transactions and optimizing network costs. In addition, the ongoing transition of our network to a more efficient software-based technology is expected to continue driving favorable expense trends over the next several years. However, expenses related to growth areas of our business including new video platforms and our deployment of 5G wireless service will place offsetting pressure on our operating income margin.

Market Conditions During 2017, the U.S. stock market experienced strong gains but general business investment remained slow, affecting our business customers. However, we expect that corporate tax reform, enacted in December 2017, will stimulate business investment and job growth, and, therefore increase demand for our services. Residential customers continue to be price sensitive in selecting offerings, especially in the wireless area, and continue to focus on products that give them efficient access to video and broadcast services. We expect ongoing pressure on pricing during 2018 as we respond to the competitive marketplace, especially in wireless and video services.

Included on our consolidated balance sheets are assets held by benefit plans for the payment of future benefits. Our pension plans are subject to funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). In September 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC to the trust used to pay pension benefits. The trust is entitled to receive cumulative annual cash distributions of $560, which will result in a $560 contribution during 2018. In September 2017, we agreed not to call the preferred equity interest until at least 2022, which increased the value of the preferred equity interests by approximately $1,245. We expect only minimal ERISA contribution requirements to our pension plans for 2018. Investment returns on these assets depend largely on trends in the U.S. securities markets and the U.S. economy, and a weakness in the equity, fixed income and real asset markets could require us in future years to make contributions to the pension plans in order to maintain minimum funding requirements as established by ERISA. In addition, our policy of recognizing actuarial gains and losses related to our pension and other postretirement plans in the period in which they arise subjects us to earnings volatility caused by changes in market conditions. Changes in our discount rate, which are tied to changes in the bond market, and changes in the performance of equity markets, may have significant impacts on the valuation of our pension and other postretirement obligations at the end of 2018 (see "Accounting Policies and Estimates").

OPERATING ENVIRONMENT OVERVIEW

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

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

On December 14, 2017, the FCC voted to return broadband internet access service to its prior classification as an information service, and reinstate the private mobile service classification of mobile broadband internet access service. The order also eliminated the FCC's Internet Conduct Standard, along with the bright-line rules and included transparency requirements related to network management. The order will be effective after it's published in the Federal Register. As a result of the FCC Order, state legislators and governors are introducing individual state laws and executive orders to reinstate portions of the net neutrality regulations vacated by the FCC order. We will continue to support congressional action to codify a set of standard consumer rules for the internet.

On April 20, 2017, the FCC adopted an order that maintains light touch pricing regulation of packet-based services, extends such light touch pricing regulation to high-speed Time Division Multiplex (TDM) transport services and to most of our TDM channel termination services, based on a competitive market test for such services. For those services that do not qualify for light touch regulation, the order allows companies to offer volume and term discounts, as well as contract tariffs. Several parties appealed the FCC's decision. These appeals were consolidated in the U.S. Court of Appeals for the Eighth Circuit, where they remain pending.

In October 2016, a sharply divided FCC adopted new rules governing the use of customer information by providers of broadband internet access service. Those rules were more restrictive in certain respects than those governing other participants in the internet economy, including so-called "edge" providers such as Google and Facebook. On April 3, 2017, the president signed a resolution passed by Congress repealing the new rules under the Congressional Review Act, which prohibits the issuance of a new rule that is substantially the same as a rule repealed under its provisions, or the reissuance of the repealed rule, unless the new or reissued rule is specifically authorized by a subsequent act of Congress.

In February 2015, the FCC released an order classifying both fixed and mobile consumer broadband internet access services as telecommunications services, subject to Title II of the Communications Act. The Order, which represented a departure from longstanding bipartisan precedent, significantly expanded the FCC's authority to regulate broadband internet access services, as well as internet interconnection arrangements. AT&T and several other parties appealed the FCC's order. In June 2016, a divided panel of the District of Columbia Court of Appeals upheld the FCC's rules by a 2-1 vote, and petitions for rehearing *en banc* were denied in May 2017. Petitions for a writ of certiorari at the U.S. Supreme Court remain pending. Meanwhile, on December 14, 2017, the FCC reversed its 2015 decision by reclassifying fixed and mobile consumer broadband services as information services and repealing most of the rules that were adopted in 2015. In lieu of broad conduct prohibitions, the order requires internet service providers to disclose information about their network practices and terms of service, including whether they block or throttle internet traffic or offer paid prioritization. The order will take effect after the Office of Management and Budget approves the new disclosure requirements.

We provide satellite video service through our subsidiary DIRECTV, whose satellites are licensed by the FCC. The Communications Act of 1934 and other related acts give the FCC broad authority to regulate the U.S. operations of DIRECTV. In addition, states representing a majority of our local service access lines have adopted legislation that enables us to provide IP-based service through a single statewide or state-approved franchise (as opposed to the need to acquire hundreds or even thousands of municipal-approved franchises) to offer a competitive video product. We also are supporting efforts to update and improve regulatory treatment for our services. Regulatory reform and passage of legislation is uncertain and depends on many factors.

We provide wireless services in robustly competitive markets, but are subject to substantial governmental regulation. Wireless communications providers must obtain licenses from the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the FCC rules and policies governing the use of the spectrum. While wireless communications providers' prices and offerings are generally not subject to state or local regulation, states sometimes attempt to regulate or legislate various aspects of wireless services, such as in the areas of consumer protection and the deployment of cell sites and equipment. The anticipated industry-wide deployment of 5G technology, which is needed to satisfy extensive demand for video and internet access, will involve significant deployment of "small cell" equipment and therefore increase the need for a quick permitting process.

The FCC has recognized that the explosive growth of bandwidth-intensive wireless data services requires the U.S. government to make more spectrum available. The FCC finished its most recent auction in April 2017 of certain spectrum that is currently used by broadcast television licensees (the "600 MHz Auction").

In May 2014, the FCC issued an order revising its policies governing mobile spectrum holdings. The FCC rejected the imposition of caps on the amount of spectrum any carrier could acquire, retaining its case-by-case review policy. Moreover, it increased the amount of spectrum that could be acquired before exceeding an aggregation "screen" that would automatically trigger closer scrutiny of a proposed transaction. On the other hand, it indicated that it will separately consider an acquisition of "low band" spectrum that exceeds one-third of the available low band spectrum as presumptively harmful to competition. The spectrum screen (including the low band screen) recently increased by 23 MHz. On balance, the order and the spectrum screen should allow AT&T to obtain additional spectrum to meet our customers' needs.

As the wireless industry has matured, future wireless growth will increasingly depend on our ability to offer innovative video and data services and a wireless network that has sufficient spectrum and capacity to support these innovations. We continue to invest significant capital in expanding our network capacity, as well as to secure and utilize spectrum that meets our long-term needs. To that end, we have:

- Submitted winning bids for 251 Advanced Wireless Services (AWS) spectrum licenses for a near-nationwide contiguous block of high-quality spectrum in the AWS-3 Auction.
- Redeployed spectrum previously used for basic 2G services to support more advanced mobile internet services on our 3G and 4G networks.
- Secured the First Responder Network Authority (FirstNet) contract, which provides us with access to a nationwide low band 20 MHz of spectrum.
- Invested in 5G and millimeter-wave technologies with our 2018 acquisition of Fiber-Tower Corporation, which holds significant amounts of spectrum in the millimeter wave bands (28 GHz and 39 GHz) that the FCC recently reallocated for mobile broadband services. These bands will help to accelerate our entry into 5G services.

Tax Reform On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law. We expect it to stimulate investment, job creation and economic growth which should result in increased demand for our services. Upon enactment, we made $800 of voluntary contributions to employee healthcare plans, paid $220 for a special one-time bonus to more than 200,000 front-line employees and announced our plan to invest an additional $1,000 of capital in the United States in 2018. We anticipate the legislation will have a positive impact on our consolidated operations and cash flows in 2018 and subsequent years. (See Note 11)

Expected Growth Areas

Over the next few years, we expect our growth to come from international operations, IP-based broadband services and advertising and data insights (especially with Time Warner). With our 2015 acquisitions of DIRECTV and wireless properties in Mexico, our revenue mix is much more diversified. We can now provide integrated services to diverse groups of customers in the U.S. on different technological platforms, including wireless, satellite and wireline. In 2018, our key initiatives include:

- Building a premier gigabit network. FirstNet, combined with our fiber and 5G deployment, provide a powerful platform to accelerate our move to a ubiquitous gigabit world.
- Growing profitability in Mexico.
- Creating a new platform for targeted advertising, using data, content and talent to build an automated advertising platform that can transform premium video and TV advertising.
- Launching a next generation video streaming platform, adding additional enhancements and user interfaces to our video services.
- Continuing to develop a competitive advantage through our industry-leading cost-structure.

Integration of Data/Broadband and Entertainment Services As the communications industry continues to move toward internet-based technologies that are capable of blending wireline, satellite and wireless services, we plan to offer services that take advantage of these new and more sophisticated technologies. In particular, we intend to continue to focus on expanding our high-speed internet and video offerings and on developing IP-based services that allow customers to integrate their home or business fixed services with their mobile service. During 2018, we will continue to develop and provide unique integrated video, mobile and broadband solutions. In late 2017, we expanded our offering of DIRECTV NOW, an over-the-top video service; data usage from DIRECTV NOW will not count toward data limits for customers who bundle this product with our wireless service. We believe this offering facilitates our customers' desire to view video anywhere on demand and encourages customer retention.

Wireless We expect to deliver revenue growth in the coming years. We are in a period of rapid growth in wireless video usage and believe that there are substantial opportunities available for next-generation converged services that combine technologies and services. For example, we have agreements with many automobile manufacturers and began providing vehicle-embedded security and entertainment services.

As of December 31, 2017, we served 157 million wireless subscribers in North America, with nearly 142 million in the United States. Our LTE technology covers over 400 million people in North America. In the United States, we cover all major metropolitan areas and over 320 million people. We also provide 4G coverage using another technology (HSPA+), and when combined with our upgraded backhaul network, we are able to enhance our network capabilities and provide superior mobile broadband speeds for data and video services. Our wireless network also relies on other GSM digital transmission technologies for 3G data communications.

Our acquisition of two Mexican wireless providers in 2015 brought a GSM network covering both the U.S. and Mexico and enabled our customers to use wireless services without roaming on other companies' networks. We believe this seamless access will prove attractive to customers and provide a significant growth opportunity. We also announced in 2015 our plan to invest $3,000 to upgrade our network in Mexico to provide LTE coverage to 100 million people and businesses by year-end 2018. As of year-end 2017, this LTE network covered approximately 96 million people and businesses in Mexico.

REGULATORY DEVELOPMENTS

Set forth below is a summary of the most significant regulatory proceedings that directly affected our operations during 2017. Industry-wide regulatory developments are discussed above in Operating Environment Overview. While these issues may apply only to certain subsidiaries, the words "we," "AT&T" and "our" are used to simplify the discussion. The following discussions are intended as a condensed summary of the issues rather than as a comprehensive legal analysis and description of all of these specific issues.

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

The General Data Protection Regulation goes into effect in Europe in May of 2018. AT&T processes and handles personal data of its customers, employees of its enterprise customers and its employees. This regulation creates a range of new compliance obligations and significantly increases financial penalties for noncompliance. AT&T must implement operational changes to comply with this regulation.

Federal Regulation In February 2015, the FCC released an order classifying both fixed and mobile consumer broadband internet access services as telecommunications services subject to extensive public utility-style regulation under the Telecom Act. The Order, which represented a departure from longstanding bipartisan precedent, significantly expanded the FCC's authority to regulate broadband internet access services, as well as internet interconnection arrangements. AT&T and several other parties appealed the FCC's order. In June 2016, a divided panel of the District of Columbia Court of Appeals upheld the FCC's rules by a 2-1 vote, and petitions for rehearing *en banc* were denied in May 2017. Petitions for a writ of certiorari at the U.S. Supreme Court remain pending. Meanwhile, on December 14, 2017, the FCC reversed its 2015 decision by reclassifying fixed and mobile consumer broadband services as information services and repealing most of the rules that were adopted in 2015. In lieu of broad conduct prohibitions, the order requires internet service providers to disclose information about their network practices and terms of service, including whether they block or throttle internet traffic or offer paid prioritization. The order will take effect after the Office of Management and Budget approves the new disclosure requirements.

On April 20, 2017, the FCC adopted an order bringing to an end a decade-long proceeding regarding pricing of high capacity data services by incumbent local telephone companies, like AT&T. The order declines to require advanced approval of rates for packet-based services like Ethernet, opting instead to continue the existing regime under which such rates are presumed lawful but may be challenged in a complaint. In addition, the order extends this "light touch" approach to high-speed TDM transport services and to most of our TDM channel termination services, based on the application of a competitive market test for such services. For those services that do not qualify for light touch regulation, the order continues to subject the services to price cap regulation but allows companies to offer volume and term discounts, as well as contract tariffs. Several parties appealed the FCC's decision. These appeals were consolidated in the U.S. Court of Appeals for the Eighth Circuit, where they remain pending.

In November 2017, the FCC updated and streamlined certain rules governing pole attachments, copper retirement, and service discontinuances. These changes should facilitate our ability to replace legacy facilities and services with advanced broadband infrastructure and services.

COMPETITION

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

We face substantial and increasing competition in our wireless businesses. Under current FCC rules, multiple licensees, who provide wireless services on the cellular, PCS, Advanced Wireless Services, 700 MHz and other spectrum bands, may operate in each of our U.S. service areas, which results in the potential presence of multiple competitors. Our competitors include brands such as Verizon Wireless, Sprint, T-Mobile/Metro PCS, a larger number of regional providers of cellular, PCS and other wireless communications services, resellers of those services and certain cable companies also launching wireless service to their subscribers. In addition, we face competition from providers who offer voice, text messaging and other services as applications on data networks. More than 98% of the U.S. population lives in areas with at least three mobile telephone operators, and almost 94% of the population lives in areas with at least four competing carriers. We are one of three providers in Mexico, with the most significant market share controlled by América Móvil. We may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed. We compete for customers based principally on service/device offerings, price, network quality, coverage area and customer service.

Our subsidiaries providing communications and digital entertainment services will face continued competitive pressure in 2018 from multiple providers, including wireless, satellite, cable and other VoIP providers, online video providers, and interexchange carriers and resellers. In addition, the desire for high-speed data on demand, including video, are continuing to lead customers to terminate their traditional wired services and use our or competitors' wireless, satellite and internet-based services. In most U.S. markets, we compete for customers, often on pricing of bundled services, with large cable companies, such as Comcast Corporation, Cox Communications Inc. and Charter Communications (marketed as Spectrum), for high-speed internet, video and voice services and other smaller telecommunications companies for both long-distance and local services. In addition, in Latin American countries served by our DIRECTV subsidiary, we also face competition from other video providers, including América Móvil and Telefónica.

Our Entertainment Group and Business Solutions segments generally remain subject to regulation for certain legacy wireline wholesale services by state regulatory commissions for intrastate services and by the FCC for interstate services. Under the Telecom Act, companies seeking to interconnect to our wireline subsidiaries' networks and exchange local calls enter into interconnection agreements with us. Many unresolved issues in negotiating those agreements are subject to arbitration before the appropriate state commission. These agreements (whether fully agreed-upon or arbitrated) are often then subject to review and approval by the appropriate state commission.

Our Entertainment Group and Business Solutions segments operate portions of their business under state-specific forms of regulation for retail services that were either legislatively enacted or authorized by the appropriate state regulatory commission. Some states regulate prices of retail services, while others adopt a regulatory framework that incorporates deregulation and price restrictions on a subset of our services. Some states may impose minimum customer service standards with required payments if we fail to meet the standards.

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

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

ACCOUNTING POLICIES AND STANDARDS

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

Allowance for Doubtful Accounts We record expense to maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments. When determining the allowance, we consider the probability of recoverability based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts and installment receivable balances with reserves generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the allowances for doubtful accounts are adjusted through expense accordingly. A 10% change in the amounts estimated to be uncollectible would result in a change in the provision for uncollectible accounts of approximately $164.

Pension and Postretirement Benefits Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 12. Our assumed weighted-average discount rate for pension and postretirement benefits of 3.80% and 3.70%, respectively, at December 31, 2017, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and corresponding to the related expected durations of future cash outflows for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2017, when compared to the year ended December 31, 2016, we decreased our pension discount rate by 0.60%, resulting in an increase in our pension plan benefit obligation of $4,609 and decreased our postretirement discount rate by 0.60%, resulting in an increase in our postretirement benefit obligation of $1,605. For the year ended December 31, 2016, we decreased our pension discount rate by 0.20%, resulting in an increase in our pension plan benefit obligation of $2,189 and decreased our postretirement discount rate by 0.20%, resulting in an increase in our postretirement benefit obligation of $906.

Our expected long-term rate of return on pension plan assets is 7.00% for 2018 and 7.75% for 2017. Our expected long-term rate of return on postretirement plan assets is 5.75% for 2018 and 2017. Our expected return on plan assets is calculated using the actual fair value of plan assets. The lower expected rate of return on pension plan assets also reflects changes in plan asset mix. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the expected long-term rate of return would cause 2018 combined pension and postretirement cost to increase $244, which under our accounting policy would be adjusted to actual returns in the current year as part of our fourth-quarter remeasurement of our retiree benefit plans. In 2017, the actual return on our combined pension and postretirement plan assets was 14.1%, resulting in an actuarial gain of $3,140.

We recognize gains and losses on pension and postretirement plan assets and obligations immediately in our operating results. These gains and losses are generally measured annually as of December 31 and accordingly will normally be recorded during the fourth quarter, unless an earlier remeasurement is required. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years. Note 12 also discusses the effects of certain changes in assumptions related to certain medical trend rates on projected retiree healthcare costs.

Depreciation Our depreciation of assets, including use of composite group depreciation and estimates of useful lives, is described in Notes 1 and 6.

If all other factors were to remain unchanged, we expect that a one-year increase in the useful lives of our plant in service would have resulted in a decrease of approximately $3,191 in our 2017 depreciation expense and that a one-year decrease would have resulted in an increase of approximately $4,484 in our 2017 depreciation expense.

Asset Valuations and Impairments We record assets acquired in business combinations at fair value. Goodwill and other indefinite-lived intangible assets are not amortized but tested at least annually for impairment. For impairment testing, we estimate fair values using models that predominantly rely on the expected cash flows to be derived from the use of the asset. The fair values of the domestic reporting units discussed below do not reflect the enactment of U.S. corporate tax reform, which will positively impact future cash flows.

We test goodwill on a reporting unit basis by comparing the estimated fair value of each reporting unit to its book value. If the fair value exceeds the book value, then no impairment is measured. We estimate fair values using an income approach (also known as a discounted cash flow) and a market multiple approach. The income approach utilizes our 10-year cash flow projections with a perpetuity value discounted at an appropriate weighted average cost of capital. The market multiple approach uses the multiples of publicly traded companies whose services are comparable to those offered by the reporting units. In 2017, the calculated fair value of the reporting units exceeded book value in all circumstances, and no additional testing was necessary. If either the projected rate of long-term growth of cash flows or revenues declined by 0.5%, or if the discount rate increased by 0.5%, the fair values would still be higher than the book value of the goodwill. In the event of a 10% drop in the fair values of the reporting units, the fair values would have still exceeded the book values of the reporting units, except for Brazil where the fair value exceeded the book value by approximately 7%. The amount of goodwill assigned to the Brazil reporting unit was $2,673.

We assess fair value for wireless licenses using a discounted cash flow model (the Greenfield Approach) and a corroborative market approach based on auction prices, depending upon auction activity. The Greenfield Approach assumes a company initially owns only the wireless licenses and makes investments required to build an operation comparable to current use. Inputs to the model include subscriber growth, churn, revenue per user, capital investment and acquisition costs per subscriber, ongoing operating costs, and resulting EBITDA margins. We based our assumptions on a combination of average marketplace participant data and our historical results, trends and business plans. These licenses are tested annually for impairment on an aggregated basis, consistent with their use on a national scope for the United States and Mexico. For impairment testing, we assume subscriber and revenue growth will trend up to projected levels, with a long-term growth rate reflecting expected long-term inflation trends. We assume churn rates will initially exceed our current experience, but decline to rates that are in line with industry-leading churn. For the U.S. licenses, EBITDA margins are assumed to trend toward 45% annually. We used a discount rate of 8.25% for the United States and 9.25% for Mexico, based on the optimal long-term capital structure of a market participant and its associated cost of debt and equity, to calculate the present value of the projected cash flows. If either the projected rate of long-term growth of cash flows or revenues declined by 0.5%, or if the discount rate increased by 0.5%, the fair values of the wireless licenses would still be higher than the book value of the licenses. The fair value of the wireless licenses in the United States and Mexico each exceeded the book value by more than 10%.

Orbital slots are also valued using the Greenfield Approach. The projected cash flows are based on various factors, including satellite cost, other capital investment per subscriber, acquisition costs per subscriber and usage per subscriber, as well as revenue growth, subscriber growth and churn rates. For impairment testing purposes, we assumed sustainable long-term growth assumptions consistent with the business plan and industry counterparts in the United States. We used a discount rate of 9% to calculate the present value of the projected cash flows. If either the projected rate of long-term growth of cash flows or revenues declined by 0.5%, or if the discount rate increased by 0.5%, the fair values of the orbital slots would still be higher than the book value of the orbital slots. The fair value of the orbital slots exceeded the book value by more than 10%.

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

We periodically assess our network assets for impairment (see Note 6).

We review our investments to determine whether market declines are temporary and accordingly reflected in accumulated other comprehensive income, or other-than-temporary and recorded as an expense in "Other income (expense) – net" in the consolidated statements of income. This evaluation is based on the length of time and the severity of decline in the investment's value.

Income Taxes Our estimates of income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 11 and reflect our assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and probability of these estimates. Actual income taxes could vary from these estimates due to future changes in income tax law or the final review of our tax returns by federal, state or foreign tax authorities.

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

The Tax Cuts and Jobs Act (Act) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign-sourced earnings. At December 31, 2017, we have not completed our accounting for the tax effects of enactment of the Act; however, we remeasured substantially all of our deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future as a result of the reduction in federal tax rate and recorded a provisional amount for our one-time transition tax liability for our foreign subsidiaries. We continue to analyze certain aspects of the Act and refine our calculations, which could potentially affect the measurement of these balances. The Securities and Exchange Commission has issued guidance that provides a "measurement period" whereby registrants can provide a reasonable estimate of the tax reform impact in their financial statements but can adjust that amount during the measurement period (expected to be a year or less). Our future results could include additional adjustments, and those adjustments could be material. (See Note 11)

New Accounting Standards

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

See Note 1 for discussion of the impacts of the standard. We expect the new revenue recognition accounting standard will have a positive impact on our near-term financial results. Several items will be impacted, but the more significant of these are the deferral of commission expenses, which will increase operating income; re-characterization of service to equipment revenues for equipment provided with multi-year service contracts, which is expected to have an impact on service revenue, but not a material impact on total revenue; and offsetting Universal Service Fund (USF) and other regulatory fee revenues against related expenses, which will significantly reduce both revenues and expenses, but have little impact on operating income. Our preliminary estimate of the impacts to 2018 diluted earnings per share is an increase of $0.10 to $0.15. Our estimates reflect our expectation of the success of our equipment installment programs to gain subscriber contracts, and the level of promotional activities and commissions paid in 2018.

OTHER BUSINESS MATTERS

Time Warner Inc. Acquisition In October 2016, we announced an agreement (Merger Agreement) to acquire Time Warner in a 50% cash and 50% stock transaction for $107.50 per share of Time Warner common stock, or approximately $85,400 at the date of the announcement (Merger). Each share of Time Warner common stock will be exchanged for $53.75 per share in cash and a number of shares of AT&T common stock equal to the exchange ratio. The cash portion of the purchase price will be financed with debt and cash. See Note 7 for additional details of the transaction and "Liquidity" for a discussion of our financing arrangements.

On November 20, 2017, the United States Department of Justice (DOJ) filed a complaint in the U.S. District Court, District of Columbia seeking a permanent injunction to prevent AT&T from acquiring Time Warner, alleging that the effect of the transaction "may be substantially to lessen competition" in violation of federal antitrust law. AT&T disputes the government allegations, and believes the merger is pro-consumer, pro-competitive and ultimately will be approved. The Court has scheduled trial to begin on March 19, 2018. In light of the trial date and expected timing of a decision, both AT&T and Time Warner elected to further extend the termination date of the merger agreement to June 21, 2018.

FirstNet On March 30, 2017, FirstNet announced its selection of AT&T to build and manage the first nationwide broadband network dedicated to America's first responders. By January 2018, all 56 jurisdictions, including 50 states, the District of Columbia and five U.S. territories, have elected to participate in the network. Under the awarded 25-year agreement, FirstNet will provide 20 MHz of valuable telecommunications spectrum and success-based payments of $6,500 over the next five years to support network buildout. We expect to spend about $40,000, in part recoverable from FirstNet, over the life of the 25-year contract to build, operate and maintain the network. The spectrum provides priority use to first responders, which are included as wireless subscribers and contribute to wireless revenues. As allowed under the agreement, excess capacity on the spectrum is used for any of AT&T's subscriber base.

Under the agreement, we are required to construct a network that achieves coverage and nationwide interoperability requirements. We have a contractual commitment to make sustainability payments of $18,000 over the 25-year contract. These sustainability payments represent our commitment to fund FirstNet's operating expenses and future reinvestments in the network which we will own and operate. FirstNet has a statutory requirement to reinvest funds that exceed the agency's operating expenses, which are anticipated to be in the $75-$100 range annually, and when including increases for inflation, we expect to be in the $3,000 or less range over the life of the 25-year contract. Being subject to federal acquisition rules, FirstNet is prohibited from contractually committing to a specific vendor for future network reinvestment. However, it is highly probable that AT&T will receive substantially all of the funds reinvested into the network since AT&T will own and operate the infrastructure and have exclusive rights to use the spectrum as all states have opted in. After FirstNet's operating expenses are paid, we anticipate that the remaining amount, expected to be in the $15,000 range, will be reinvested into the network. (See Note 17)

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

Federal Trade Commission Litigation Involving DIRECTV In March 2015, the Federal Trade Commission (FTC) filed a civil suit in the U.S. District Court for the Northern District of California against DIRECTV seeking injunctive relief and money damages under Section 5 of the Federal Trade Commission Act and Section 4 of the Restore Online Shoppers' Confidence Act. The FTC's allegations concern DIRECTV's advertising, marketing and sale of programming packages. The FTC alleges that DIRECTV did not adequately disclose all relevant terms. We vigorously dispute these allegations. A bench trial began on August 14, 2017, and was suspended on August 25, 2017, after the FTC rested its case, so that the court could consider DIRECTV's motion for judgment. The hearing on the motion occurred on October 25, 2017, and the judge took it under advisement.

Unlimited Data Plan Claims In October 2014, the FTC filed a civil suit in the U.S. District Court for the Northern District of California against AT&T Mobility, LLC seeking injunctive relief and unspecified money damages under Section 5 of the Federal Trade Commission Act. The FTC's allegations concern the application of AT&T's Maximum Bit Rate (MBR) program to customers who enrolled in our Unlimited Data Plan from 2007-2010. MBR temporarily reduces in certain instances the download speeds of a small portion of our legacy Unlimited Data Plan customers each month after the customer exceeds a designated amount of data during the customer's billing cycle. MBR is an industry-standard practice that is designed to affect only the most data-intensive applications (such as video streaming). Texts, emails, tweets, social media posts, internet browsing and many other applications are typically unaffected. Contrary to the FTC's allegations, our MBR program is permitted by our customer contracts, was fully disclosed in advance to our Unlimited Data Plan customers, and was implemented to protect the network for the benefit of all customers. In March 2015, our motion to dismiss the litigation on the grounds that the FTC lacked jurisdiction to file suit was denied. In May 2015, the Court granted our motion to certify its decision for immediate appeal. The United States Court of Appeals for the Ninth Circuit subsequently granted our petition to accept the appeal, and, on August 29, 2016, issued its decision reversing the district court and finding that the FTC lacked jurisdiction to proceed with the action. The FTC asked the Court of Appeals to reconsider the decision "*en banc*," which the Court agreed to do. The *en banc* hearing was held on September 19, 2017. We do not expect a decision until early or mid-2018. In addition to the FTC case, several class actions were filed challenging our MBR program. We have secured dismissals in each of these cases, although in one of the cases, we do not yet know whether the plaintiff will seek further appellate review.

Labor Contracts As of January 31, 2018, we employed approximately 252,000 persons. Approximately 46% of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers (IBEW) or other unions. After expiration of the agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached.

A summary of labor contract settlements reached in 2017, by region or employee group, is as follows:

- The West and East Regions' Core contracts which expired in April 2016 were settled and ratified by the CWA in August 2017. The West contract now includes approximately 2,300 former DIRECTV non-management employees. These new contracts expire in April 2020 and together cover more than 17,000 employees.
- The Southwest Region's Core contract which would have expired in April 2017 was settled and ratified by the CWA in April 2017. This new contract expires in April 2021 and covers 20,000 employees.
- The IBEW's primary labor contract which would have expired in June 2017 was settled and ratified by the CWA in May 2017. This contract expires in June 2022 and covers 5,000 employees.
- A Mobility contract covering approximately 20,000 employees which would have expired in February 2017 was settled and ratified by the CWA in January 2018. The new contract will expire in February 2021.

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

LIQUIDITY AND CAPITAL RESOURCES

In anticipation of the Time Warner transaction closing, we had $50,498 in cash and cash equivalents available at December 31, 2017. Cash and cash equivalents included cash of $4,156 and money market funds and other cash equivalents of $46,342. Approximately $1,466 of our cash and cash equivalents resided in foreign jurisdictions and were primarily in foreign currencies; these funds are primarily used to meet working capital requirements of foreign operations.

Cash and cash equivalents increased $44,710 since December 31, 2016. In 2017, cash inflows were primarily provided by the issuance of long-term debt and cash receipts from operations, including cash from our sale and transfer of certain wireless equipment installment receivables to third parties. We also received a $1,438 deposit refund from the FCC. These inflows were offset by cash used to meet the needs of the business, including, but not limited to, payment of operating expenses, funding capital expenditures, debt repayments, dividends to stockholders, and the acquisition of wireless spectrum and other operations. We discuss many of these factors in detail below.

On December 22, 2017, federal tax reform was enacted into law. Beginning with 2018, the Act reduces the U.S. federal corporate tax rate from 35% to 21% and permits immediate deductions for certain new assets. As a result, cash taxes will be significantly lower than they would have been in 2018 and beyond without federal tax reform.

Cash Provided by or Used in Operating Activities
During 2017, cash provided by operating activities was $39,151 compared to $39,344 in 2016. Lower operating cash flows in 2017 were primarily due to more than $1,000 of voluntary employee-related payments resulting from tax reform.

During 2016, cash provided by operating activities was $39,344 compared to $35,880 in 2015. Higher operating cash flows in 2016 were primarily due to our acquisition of DIRECTV and the timing of working capital payments.

Cash Used in or Provided by Investing Activities
During 2017, cash used in investing activities of $20,371 consisted primarily of $20,647 for capital expenditures, excluding interest during construction. Investing activities also included a refund from the FCC in the amount of $1,438 in April 2017, resulting from the conclusion of the FCC's 600 MHz Auction. We submitted winning bids to purchase spectrum licenses in 18 markets for which we paid $910.

The majority of our capital expenditures are spent on our networks, our video services and related support systems. Capital expenditures, excluding interest during construction, decreased $869 in 2017. In connection with capital improvements, we negotiate favorable payment terms (referred to as vendor financing), which are excluded from our investing activities and reported as financing activities. In 2017, vendor financing payments related to capital investments were approximately $830. We do not report capital expenditures at the segment level.

In 2018, we expect our capital expenditures to approach $25,000; $23,000 net of expected FirstNet reimbursements and inclusive of $1,000 incremental tax reform investment. The amount of capital expenditures is influenced by demand for services and products, capacity needs and network enhancements. We continue to focus on ensuring our DIRECTV merger build commitment is met. As of December 31, 2017, we market our fiber-to-the-premises network to 7.4 million customer locations and are on track to meet our FCC commitment of 12.5 million locations by mid-2019.

Cash Used in or Provided by Financing Activities
We paid dividends of $12,038 in 2017, $11,797 in 2016 and $10,200 in 2015. The increases in 2017 and 2016 were due to the increase in the quarterly dividend approved by our Board of Directors in the fourth quarter of each year. The 2016 increase was also due to the higher number of outstanding shares following the DIRECTV merger. On December 15, 2017, our Board of Directors approved a 2.0% increase in the quarterly dividend from $0.49 to $0.50 per share. This follows a 2.1% dividend increase approved by our Board in October 2016. Dividends declared by our Board of Directors totaled $1.97 per share in 2017, $1.93 per share in 2016 and $1.89 per share in 2015. Our dividend policy considers the expectations and requirements of stockholders, capital funding requirements of AT&T and long-term growth opportunities. It is our intent to provide the financial flexibility to allow our Board of Directors to consider dividend growth and to recommend an increase in dividends to be paid in future periods. All dividends remain subject to declaration by our Board of Directors.

During 2017, cash provided by financing activities totaled $25,930 and included net proceeds of $48,793 primarily from the following long-term debt issuances:

- February issuance of $1,250 of 3.200% global notes due 2022; $750 of 3.800% global notes due 2024; $2,000 of 4.250% global notes due 2027; $3,000 of 5.250% global notes due 2037; $2,000 of 5.450% global notes due 2047; and $1,000 of 5.700% global notes due 2057.
- March issuance of $1,430 of 5.500% global notes due 2047.
- March issuance of $800 floating rate global notes due 2020. The floating rate for the notes is based upon the three-month London Interbank Offered Rate (LIBOR), reset quarterly, plus 65 basis points.
- March draw of $300 on a private financing agreement with Banco Nacional de Mexico, S.A. due March 2019. The agreement contains terms similar to that provided under our syndicated credit arrangements; the interest rate is a market rate. As of December 31, 2017, a total of $690 had been drawn against this arrangement.
- May issuance of $1,500 floating rate global notes due 2021. The floating rate for the notes is based upon the three-month LIBOR, reset quarterly, plus 95 basis points.
- May issuance of CAD$600 of 2.850% global notes due 2024 and CAD$750 of 4.850% global notes due 2047 (together, equivalent to $994, when issued).
- June issuance of £1,000 of 3.550% global notes due 2037, subject to mandatory redemption described further below (equivalent to $1,282 when issued).
- June issuance of €750 of 1.050% global notes due 2023; €1,750 of 1.800% global notes due 2026; €1,500 of 2.350% global notes due 2029; €1,750 of 3.150% global notes due 2036 and €1,250 of floating rate global notes due 2023. All except the 2036 global notes are subject to mandatory redemption (together, equivalent to $7,883, when issued).

- August issuance of $750 of floating rate notes due 2023; $1,750 of 2.850% global notes due 2023; $3,000 of 3.400% global notes due 2024; $5,000 of 3.900% global notes due 2027; $4,500 of 4.900% global notes due 2037; $5,000 of 5.150% global notes due 2050 and $2,500 of 5.300% global notes due 2058. All are subject to mandatory redemption.
- October draw of $750 on a private financing agreement with Canadian Imperial Bank of Commerce due 2022.
- October issuance of $1,323 of 5.350% global notes due 2066.

For notes subject to mandatory redemption, if we do not consummate the Time Warner acquisition pursuant to the merger agreement on or prior to the original termination date of April 22, 2018, or, if prior to such date, the merger agreement is terminated, then in either case we must redeem the notes at a redemption price equal to 101% of the principal amount of the notes, plus accrued but unpaid interest. On November 20, 2017, the DOJ filed a civil antitrust lawsuit against AT&T challenging our proposed acquisition of Time Warner. The Court has set a March 19, 2018 date for trial. On December 21, 2017, an agreement was reached with Time Warner that the parties would not terminate the merger agreement until June 21, 2018. On February 15, 2018, we announced private offers to exchange five series of Euro (face value of €5,250) and British pound sterling (face value of £1,000) denominated notes subject to mandatory redemption for new notes that are not subject to mandatory redemption and cash. The new notes are Euro and British pound sterling denominated global notes with either a floating rate or stated rates between 1.050% and 3.550%. The exchange is expected to settle on February 27, 2018.

On December 1, 2017, we completed two exchange offers. In the first exchange offer, approximately $5,448 of notes issued by AT&T Inc., DIRECTV Holdings LLC and DIRECTV Financing Co., Inc., due between 2020 and 2023 with stated rates of zero-coupon to 5.200%, were tendered and accepted in exchange for $5,605 of two new series of AT&T Inc. global notes due between 2028 and 2030 with stated rates of 4.100% and 4.300%. In the second exchange offer, approximately $3,726 of notes issued by AT&T Inc. or one of its subsidiaries, due between 2022 and 2097 with stated rates of 5.850% to 8.750%, were tendered and accepted in exchange for $3,736 of new AT&T Inc. global notes due between 2022 and 2097 with stated rates of 5.150% to 8.750% plus a $449 cash payment.

Our weighted average interest rate of our entire long-term debt portfolio, including the impact of derivatives, was approximately 4.4% as of December 31, 2017, compared to 4.2% as of December 31, 2016. We had $162,526 of total notes and debentures outstanding at December 31, 2017, which included Euro, British pound sterling, Swiss franc, Brazilian real, Mexican peso and Canadian dollar denominated debt that totaled approximately $37,621.

During 2017, we redeemed or repaid $12,339 of debt, primarily consisting of the following:

- $1,142 of 2.400% global notes due 2017.
- $1,000 of 1.600% global notes due 2017.
- $500 of floating rate notes due 2017.
- £750 of 5.875% global notes due 2017.
- $750 repayment of a private financing agreement with Export Development Canada due 2017.
- $1,150 of 1.700% global notes due 2017.
- $4,155 repayment of amounts outstanding under our syndicated credit agreement.
- $2,000 of 1.400% global notes due 2017.

At December 31, 2017, we had $38,374 of debt maturing within one year, $30,154 of which was related to notes issued for our acquisition of Time Warner that are subject to mandatory redemption. Approximately $8,220 of the remaining debt maturing within one year was related to long-term debt issuances. Debt maturing within one year includes the following notes that may be put back to us by the holders:

- $1,000 of annual put reset securities issued by BellSouth that may be put back to us each April until maturity in 2021.
- An accreting zero-coupon note that may be redeemed each May until maturity in 2022. In May 2017, $1 was redeemed by the holder for $1. If the remainder of the zero-coupon note (issued for principal of $500 in 2007 and partially exchanged in the 2017 debt exchange offers) is held to maturity, the redemption amount will be $592.

Our Board of Directors approved repurchase authorizations of 300 million shares each in 2013 and 2014 (see Note 14). For the year ended December 31, 2017 we repurchased approximately 7 million shares totaling $279 under these authorizations. At December 31, 2017, we had approximately 388 million shares remaining from these authorizations.

Excluding the impact of acquisitions, our 2018 financing activities will focus on the refinancing and/or repayment of debt and the payment of dividends, subject to approval by our Board of Directors. We plan to fund our financing uses of cash through a combination of cash from operations, debt issuances and asset sales. We have existing cash reserves and access to term loan financing which may be used upon closing of our acquisition of Time Warner. The timing and mix of any debt issuance will be guided by credit market conditions and interest rate trends.

Credit Facilities

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

We use credit facilities as a tool in managing our liquidity status. In December 2015, we entered into a five-year $12,000 revolving credit agreement of which no amounts are outstanding as of December 31, 2017. On September 5, 2017, we repaid all of the amounts outstanding under a $9,155 syndicated credit agreement and terminated the facility. On September 29, 2017, we entered into a five-year $2,250 syndicated term loan credit agreement containing (i) a $750 term loan facility (the "Tranche A Facility"), (ii) a $750 term loan facility (the "Tranche B Facility") and (iii) a $750 term loan facility (the "Tranche C Facility"), with certain investment and commercial banks and The Bank of Nova Scotia, as administrative agent. No amounts are outstanding under the Tranche A Facility, the Tranche B Facility or the Tranche C Facility as of December 31, 2017.

We also enter into various credit arrangements supported by government agencies to support network equipment purchases.

In connection with our pending Merger with Time Warner, we entered into a $30,000 bridge loan credit agreement ("Bridge Loan") and a $10,000 term loan agreement ("Term Loan"). Following the August issuances of $22,500 of global notes, we reduced the commitments under the Bridge Loan to $0 and terminated the facility. On February 2, 2018, we amended the Term Loan to extend the commitment termination date to December 31, 2018 and increase the commitments to $16,175 from $10,000. No amounts will be borrowed under the Term Loan prior to the closing of the Merger. Borrowings under the Term Loan will be used solely to finance a portion of the cash to be paid in the Merger, the refinancing of debt of Time Warner and its subsidiaries and the payment of related expenses.

Each of our credit and loan agreements contains covenants that are customary for an issuer with an investment grade senior debt credit rating as well as a net debt-to-EBITDA financial ratio covenant requiring AT&T to maintain, as of the last day of each fiscal quarter, a ratio of not more than 3.5-to-1. As of December 31, 2017, we were in compliance with the covenants for our credit facilities.

Collateral Arrangements

During 2017, we received $3,714 of additional cash collateral, on a net basis, from banks and other participants in our derivative arrangements, compared to posting $1,022 in the prior year. Cash postings under these arrangements vary with changes in credit ratings and netting agreements. At December 31, 2017, we had posted collateral of $495 and held collateral of $968, compared to December 31, 2016, posted collateral assets of $3,242 and no collateral liabilities. (See Note 10)

Other

Our total capital consists of debt (long-term debt and debt maturing within one year) and stockholders' equity. Our capital structure does not include debt issued by our equity method investments. At December 31, 2017, our debt ratio was 53.6%, compared to 49.9% at December 31, 2016 and 50.5% at December 31, 2015. The debt ratio is affected by the same factors that affect total capital, and reflects the debt issued in 2017 and our repurchases of outstanding shares of AT&T common stock, and debt redemptions during 2017. Total capital increased $58,730 in 2017 compared to a decrease of $2,168 in 2016. The 2017 capital increase was primarily due to increased debt balances in anticipation of closing the Time Warner acquisition, and an increase in retained earnings.

A significant amount of our cash outflows is related to tax items and benefits paid for current and former employees. Total taxes incurred, collected and remitted by AT&T during 2017, 2016 and 2015 were $23,393, $25,099 and $21,501. These taxes include income, franchise, property, sales, excise, payroll, gross receipts and various other taxes and fees. Total health and welfare benefits provided to certain active and retired employees and their dependents totaled $4,512 in 2017, with $1,055 paid from plan assets. Of those benefits, $4,184 related to medical and prescription drug benefits. In addition, in December 2017, we prefunded $800 for future benefit payments. During 2017, we paid $3,705 of pension benefits out of plan assets.

During 2017, we also received approximately $5,727 from monetization of various assets, compared to $5,281 in 2016, primarily from our sales of certain equipment installment receivables. We plan to continue to explore monetization opportunities in 2018.

In 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC (Mobility), the holding company for our U.S. wireless operations, to the pension trust used to pay benefits under our qualified pension plans. The preferred equity interest had a value of $9,155 as of December 31, 2017, and $8,477 as of December 31, 2016, does not have any voting rights and has a liquidation value of $8,000. The trust is entitled to receive cumulative cash distributions of $560 per annum, which are distributed quarterly in equal amounts. Mobility II distributed $560 to the trust during 2017. So long as those distributions are made, the terms of the preferred equity interest will not impose any limitations on our ability to declare a dividend or repurchase shares.

In early September 2017, AT&T notified the trust and the fiduciary of the preferred interest that AT&T would not exercise its call option of the preferred interest until at least September 9, 2022, which increased the valuation of the preferred interest by approximately $1,245.

Dollars in millions except per share and per subscriber amounts

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

Our contractual obligations as of December 31, 2017 are in the following table:

Contractual Obligations

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations[1]	$167,879	$37,836	$16,257	$18,155	$ 95,631
Interest payments on long-term debt	121,906	7,253	13,668	12,559	88,426
Finance obligations[2]	3,102	244	502	522	1,834
Operating lease obligations[3]	25,928	3,945	7,100	5,627	9,256
Capital lease obligations[4]	1,818	142	190	218	1,268
Unrecognized tax benefits[5]	5,052	985	—	—	4,067
FirstNet sustainability payments[6]	18,000	240	240	315	17,205
Purchase obligations[7]	35,239	10,074	12,331	7,003	5,831
Total Contractual Obligations	$378,924	$60,719	$50,288	$44,399	$223,518

[1] Represents principal or payoff amounts of notes and debentures at maturity or, for putable debt, the next put opportunity (see Note 9).
[2] Represents future minimum payments under the Crown Castle and other arrangements (see Note 16).
[3] Represents operating lease payments (see Note 6).
[4] Represents capital lease payments (see Note 6).
[5] The noncurrent portion of the UTBs is included in the "More than 5 Years" column, as we cannot reasonably estimate the timing or amounts of additional cash payments, if any, at this time (see Note 11).
[6] Represents contractual commitment to make sustainability payments over the 25-year contract. These sustainability payments represent our commitment to fund FirstNet's operating expenses and future reinvestment in the network, which we will own and operate. FirstNet has a statutory requirement to reinvest funds that exceed the agency's operating expenses. We anticipate that the remaining amount, expected to be in the $15,000 range, will be reinvested into our network. (See Note 17)
[7] The purchase obligations will be funded with cash provided by operations or through incremental borrowings. The minimum commitment for certain obligations is based on termination penalties that could be paid to exit the contracts. If we elect to exit these contracts, termination fees for all such contracts in the year of termination could be approximately $694 in 2018, $737 in the aggregate for 2019 and 2020, $255 in the aggregate for 2021 and 2022, and $131 in the aggregate thereafter. Certain termination fees are excluded from the above table, as the fees would not be paid every year and the timing of such payments, if any, is uncertain.

Certain items were excluded from this table, as the year of payment is unknown and could not be reliably estimated since past trends were not deemed to be an indicator of future payment, the obligations are immaterial or because the settlement of the obligation will not require the use of cash. These items include: deferred income taxes of $43,207 (see Note 11); postemployment benefit obligations of $31,775; contributions associated with our voluntary contribution of the Mobility preferred equity interest, and expected pension and postretirement payments (see Note 12); other noncurrent liabilities of $19,747; third-party debt guarantees; fair value of our interest rate swaps; and vendor financing.

MARKET RISK

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

One of the most significant assumptions used in estimating our postretirement benefit obligations is the assumed weighted-average discount rate, which is the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and corresponding to the related expected durations of future cash outflows for the obligations. At December 31, 2017, the discount rates used to measure our pension and postretirement plans were historically low, resulting in a higher estimated obligation. Future increases in these rates could result in lower obligations, improved funded status and actuarial gains.

Interest Rate Risk

The majority of our financial instruments are medium- and long-term fixed-rate notes and debentures. Changes in interest rates can lead to significant fluctuations in the fair value of these instruments. The principal amounts by expected maturity, average interest rate and fair value of our liabilities that are exposed to interest rate risk are described in Notes 9 and 10. In managing interest expense, we control our mix of fixed and floating rate debt, principally through the use of interest rate swaps. We have established interest rate risk limits that we closely monitor by measuring interest rate sensitivities in our debt and interest rate derivatives portfolios.

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

Following are our interest rate derivatives subject to material interest rate risk as of December 31, 2017. The interest rates illustrated below refer to the average rates we expect to pay based on current and implied forward rates and the average rates we expect to receive based on derivative contracts. The notional amount is the principal amount of the debt subject to the interest rate swap contracts. The fair value asset (liability) represents the amount we would receive (pay) if we had exited the contracts as of December 31, 2017.

	Maturity							
	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value 12/31/17
Interest Rate Derivatives								
Interest Rate Swaps:								
Receive Fixed/Pay Variable Notional Amount Maturing	$4,100	$4,100	$ —	$853	$100	$680	$9,833	$(14)
Weighted-Average Variable Rate Payable[1]	4.4%	5.5%	5.8%	6.5%	6.7%	6.7%		
Weighted-Average Fixed Rate Receivable	4.3%	5.4%	5.6%	6.5%	6.8%	6.6%		

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

Foreign Exchange Risk

We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions and cash flow streams, such as those related to issuing foreign-denominated debt, receiving dividends from foreign investments, and other receipts and disbursements.

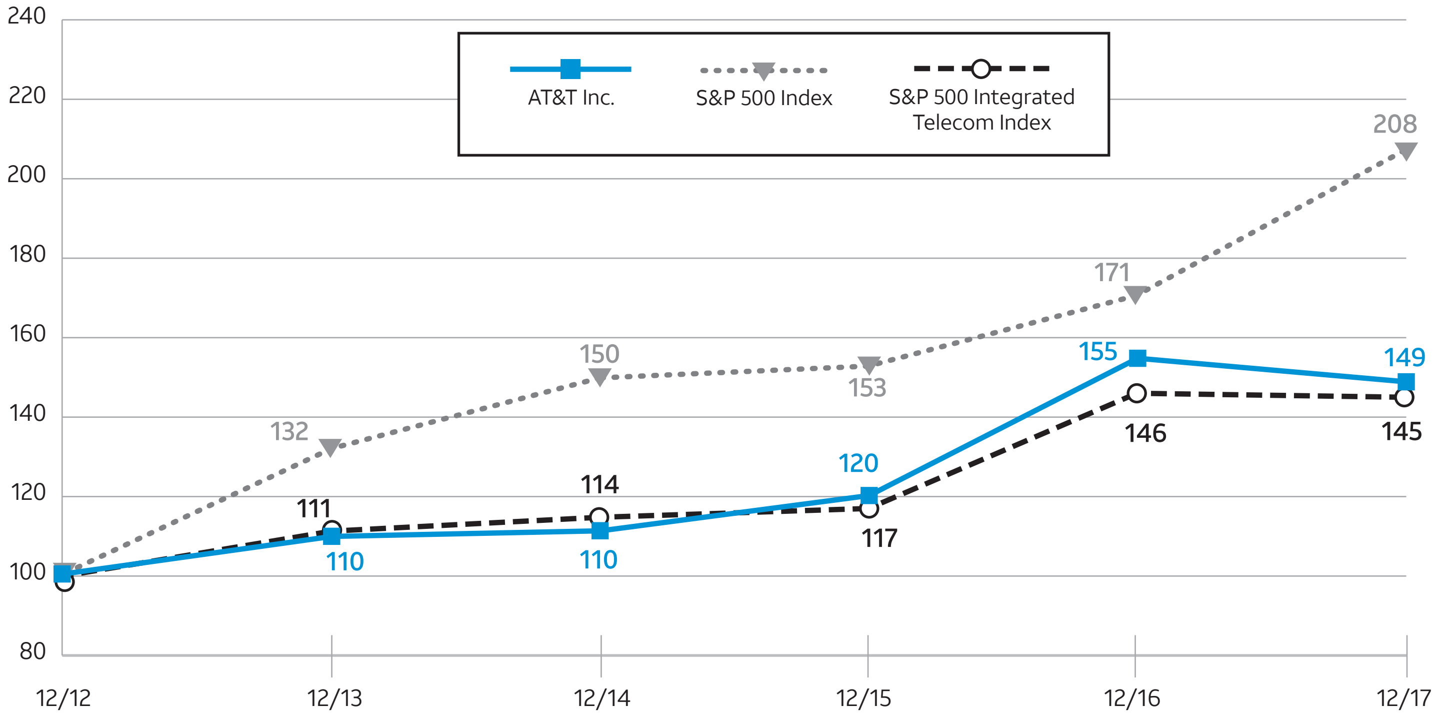
Through cross-currency swaps, most of our foreign-denominated debt has been swapped from fixed-rate or floating-rate foreign currencies to fixed-rate U.S. dollars at issuance, removing interest rate and foreign currency exchange risk associated with the underlying interest and principal payments. We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

In anticipation of other foreign currency-denominated transactions, we often enter into foreign exchange forward contracts to provide currency at a fixed rate. Our policy is to measure the risk of adverse currency fluctuations by calculating the potential dollar losses resulting from changes in exchange rates that have a reasonable probability of occurring. We cover the exposure that results from changes that exceed acceptable amounts.

For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of a hypothetical 10% fluctuation of the U.S. dollar against foreign currencies from the prevailing foreign currency exchange rates, assuming no change in interest rates. We had no foreign exchange forward contracts outstanding at December 31, 2017.

STOCK PERFORMANCE GRAPH

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



The comparison above assumes $100 invested on December 31, 2012, in AT&T common stock, Standard & Poor's 500 Index (S&P 500), and Standard & Poor's 500 Integrated Telecom Index (S&P 500 Integrated Telecom). Total return equals stock price appreciation plus reinvestment of dividends.

DISCUSSION AND RECONCILIATION OF NON-GAAP MEASURE

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

Supplemental Operational Measure

We provide a supplemental discussion of our domestic wireless operations that is calculated by combining our Consumer Mobility and Business Solutions segments, and then adjusting to remove non-wireless operations. The following table presents a reconciliation of our supplemental AT&T Mobility results.

	Year Ended December 31, 2017			
	Consumer Mobility	**Business Solutions**	**Adjustments[1]**	**AT&T Mobility**
Operating revenues				
Wireless service	**$26,053**	**$31,902**	**$ —**	**$57,955**
Fixed strategic services	**—**	**12,227**	**(12,227)**	**—**
Legacy voice and data services	**—**	**13,931**	**(13,931)**	**—**
Other service and equipment	**—**	**3,451**	**(3,451)**	**—**
Wireless equipment	**5,499**	**7,895**	**—**	**13,394**
Total Operating Revenues	**31,552**	**69,406**	**(29,609)**	**71,349**
Operating expenses				
Operations and support	**18,966**	**42,929**	**(18,640)**	**43,255**
EBITDA	**12,586**	**26,477**	**(10,969)**	**28,094**
Depreciation and amortization	**3,507**	**9,326**	**(4,806)**	**8,027**
Total Operating Expense	**22,473**	**52,255**	**(23,446)**	**51,282**
Operating Income	**$ 9,079**	**$17,151**	**$ (6,163)**	**$20,067**

[1] Business wireline operations reported in Business Solutions segment.

	Year Ended December 31, 2016			
	Consumer Mobility	Business Solutions	Adjustments[1]	AT&T Mobility
Operating revenues				
Wireless service	$27,536	$31,850	$ —	$59,386
Fixed strategic services	—	11,431	(11,431)	—
Legacy voice and data services	—	16,370	(16,370)	—
Other service and equipment	—	3,566	(3,566)	—
Wireless equipment	5,664	7,771	—	13,435
Total Operating Revenues	33,200	70,988	(31,367)	72,821
Operating expenses				
Operations and support	19,659	44,330	(20,103)	43,886
EBITDA	13,541	26,658	(11,264)	28,935
Depreciation and amortization	3,716	9,832	(5,256)	8,292
Total Operating Expense	23,375	54,162	(25,359)	52,178
Operating Income	$ 9,825	$16,826	$ (6,008)	$20,643

[1] Business wireline operations reported in Business Solutions segment.

Dollars in millions except per share and per subscriber amounts

	Year Ended December 31, 2015			
	Consumer Mobility	Business Solutions	Adjustments[1]	AT&T Mobility
Operating revenues				
Wireless service	$29,150	$30,687	$ —	$59,837
Fixed strategic services	—	10,383	(10,383)	—
Legacy voice and data services	—	18,546	(18,546)	—
Other service and equipment	—	3,559	(3,559)	—
Wireless equipment	5,916	7,952	—	13,868
Total Operating Revenues	35,066	71,127	(32,488)	73,705
Operating expenses				
Operations and support	21,477	44,946	(20,634)	45,789
EBITDA	13,589	26,181	(11,854)	27,916
Depreciation and amortization	3,851	9,789	(5,527)	8,113
Total Operating Expense	25,328	54,735	(26,161)	53,902
Operating Income	$ 9,738	$16,392	$ (6,327)	$19,803

[1] Business wireline operations reported in Business Solutions segment.

RISK FACTORS

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

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

Our costs to provide current benefits and funding for future benefits are subject to increases, primarily due to continuing increases in medical and prescription drug costs, and can be affected by lower returns on funds held by our pension and other benefit plans, which are reflected in our financial statements for that year. Investment returns on these funds depend largely on trends in the U.S. securities markets and the U.S. economy. We have experienced historically low interest rates during the last several years resulting in higher benefit obligations. During 2017, favorable market returns helped to offset those obligations. In calculating the costs included on our financial statements of providing benefits under our plans, we have made certain assumptions regarding future investment returns, medical costs and interest rates. While we have made some changes to the benefit plans to limit our risk from increasing medical costs, if actual investment returns, medical costs and interest rates are worse than those previously assumed, our costs will increase.

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

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

While the global financial markets were generally stable during 2017, a continuing uncertainty surrounding global growth rates has resulted in continuing volatility in the credit, currency, equity and fixed income markets. Uncertainty regarding future U.S. trade policy and political developments in Europe and Asia could significantly affect global financial markets in 2018. Volatility in other areas, such as in emerging markets, may affect companies' access to the credit markets, leading to higher borrowing costs for companies or, in some cases, the inability of these companies to fund their ongoing operations. In addition, we contract with large financial institutions to support our own treasury operations, including contracts to hedge our exposure on interest rates and foreign exchange and the funding of credit lines and other short-term debt obligations, including commercial paper. These financial institutions also face stricter capital-related and other regulations in the United States and Europe, as well as ongoing legal and financial issues concerning their loan portfolios, which may hamper their ability to provide credit or raise the cost of providing such credit.

A company's cost of borrowing is also affected by evaluations given by various credit rating agencies and these agencies have been applying tighter credit standards when evaluating a company's debt levels and future growth prospects. While we have been successful in continuing to access the credit and fixed income markets when needed, adverse changes in the financial markets could render us either unable to access these markets or able to access these markets only at higher interest costs and with restrictive financial or other conditions, severely affecting our business operations.

Changes in available technology could increase competition and our capital costs.

The communications and digital entertainment industry has experienced rapid changes in the past several years. The development of wireless, cable and IP technologies has significantly increased the commercial viability of alternatives to traditional wired service and enhanced the capabilities of wireless networks. In addition, our customers continue to demand services that can be accessed on mobile devices, especially video services, and are increasingly sensitive to prices for such services. While our customers can use their traditional video subscription to access mobile programming, an increasing number of customers are also using mobile devices as the primary means of viewing video and an increasing number of non-traditional video providers are developing content and technologies to satisfy that demand. In order to remain competitive, we now offer a mobile TV service and continue to upgrade our sophisticated wired and wireless networks, including satellites, as well as research other new technologies. We are spending significant capital to shift our wired network to software-based technology and preparing to launch newer wireless technology (commonly called 5G) to address these demands. If the new technologies we have adopted or on which we have focused our research efforts fail to be cost-effective and accepted by customers, our ability to remain competitive could be materially adversely affected.

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

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

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

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

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

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

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

Increasing costs to provide services could adversely affect operating margins.

Our operating costs, including customer acquisition and retention costs, could continue to put pressure on margins and customer retention levels. In addition, virtually all our video programming is provided by other companies and historically the rates they charge us for programming have often increased more than the rate of inflation. As an offsetting factor, we have announced an agreement to acquire Time Warner Inc., a global leader in media and entertainment content. In late 2017, the DOJ filed a lawsuit challenging our proposed acquisition of Time Warner. We also are attempting to use our increased scale and access to wireless customers to change this trend but such negotiations are difficult and also may result in programming disruption. If we are unable to restrain these costs or provide programming desired by our customers, it could impact margins and our ability to attract and retain customers.

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

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

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

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

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

The impact of our pending acquisition of Time Warner, including the pending lawsuit by the U.S. Department of Justice to halt the merger; the risk that, even if we prevail on the lawsuit the businesses and assets will not be integrated as successfully as projected; our costs in financing the acquisition and potential adverse effects on our share price and dividend amount due to the issuance of additional shares; the addition of Time Warner's existing debt to our balance sheet; disruption from the acquisition making it more difficult to maintain relationships with customers, employees or suppliers; and competition and its effect on pricing, spending, third-party relationships and revenues.

As discussed in "Other Business Matters," in October 2016, we agreed to acquire Time Warner. We believe that the acquisition will give us the scale, resources and ability to deploy video content more efficiently to more customers than otherwise possible and to provide very attractive integrated offerings of video, broadband and wireless services; compete more effectively against other video providers as well as other technology, media and communications companies; and produce cost savings and other potential synergies.

In late 2017, the DOJ filed a lawsuit to prevent the merger and trial is scheduled for late March. The continuing uncertainty regarding closing could divert attention from ongoing operations on the part of management and employees, adversely affecting customers and suppliers and therefore revenues. If we are successful in closing the deal, then we must integrate a large number of operational and administrative systems, which may involve significant management time and create uncertainty for employees, customers and suppliers. The integration process may also result in significant expenses and charges against earnings, both cash and noncash. While we have successfully merged large companies into our operations in the past, delays in the process could have a material adverse effect on our revenues, expenses, operating results and financial condition. This acquisition also will increase the amount of debt on our balance sheet (both Time Warner's debt and the indebtedness needed to pay a portion of the purchase price) leading to additional interest expense and, due to additional shares being issued, will result in additional cash being required for any dividends declared. Both of these factors could put pressure on our financial flexibility to continue capital investments, develop new services and declare future dividends. In addition, events outside of our control, including changes in regulation and laws as well as economic trends, could adversely affect our ability to realize the expected benefits from this acquisition.

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

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

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

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

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

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

Consolidated Statements of Income

Dollars in millions except per share amounts

	2017	2016	2015
Operating Revenues			
Service	**$145,597**	$148,884	$131,677
Equipment	**14,949**	14,902	15,124
Total operating revenues	**160,546**	163,786	146,801
Operating Expenses			
Cost of services and sales			
Equipment	**18,709**	18,757	19,268
Broadcast, programming and operations	**21,159**	19,851	11,996
Other cost of services (exclusive of depreciation and amortization shown separately below)	**37,511**	38,276	35,782
Selling, general and administrative	**34,917**	36,347	32,919
Asset abandonments and impairments	**2,914**	361	35
Depreciation and amortization	**24,387**	25,847	22,016
Total operating expenses	**139,597**	139,439	122,016
Operating Income	**20,949**	24,347	24,785
Other Income (Expense)			
Interest expense	**(6,300)**	(4,910)	(4,120)
Equity in net income (loss) of affiliates	**(128)**	98	79
Other income (expense) – net	**618**	277	(52)
Total other income (expense)	**(5,810)**	(4,535)	(4,093)
Income Before Income Taxes	**15,139**	19,812	20,692
Income tax (benefit) expense	**(14,708)**	6,479	7,005
Net Income	**29,847**	13,333	13,687
Less: Net Income Attributable to Noncontrolling Interest	**(397)**	(357)	(342)
Net Income Attributable to AT&T	**$ 29,450**	$ 12,976	$ 13,345
Basic Earnings Per Share Attributable to AT&T	**$ 4.77**	$ 2.10	$ 2.37
Diluted Earnings Per Share Attributable to AT&T	**$ 4.76**	$ 2.10	$ 2.37

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

Consolidated Statements of Comprehensive Income

Dollars in millions

	2017	2016	2015
Net income	**$29,847**	$13,333	$13,687
Other comprehensive income, net of tax:			
Foreign Currency:			
Foreign currency translation adjustment (includes $(5), $20, and $(16) attributable to noncontrolling interest), net of taxes of $123, $357 and $(595)	**15**	(777)	(1,188)
Available-for-sale securities:			
Net unrealized gains, net of taxes of $109, $36 and $0	**187**	58	—
Reclassification adjustment included in net income, net of taxes of $(117), $(1) and $(9)	**(185)**	(1)	(15)
Cash flow hedges:			
Net unrealized gains (losses), net of taxes of $200, $371 and $(411)	**371**	690	(763)
Reclassification adjustment included in net income, net of taxes of $21, $21 and $20	**39**	38	38
Defined benefit postretirement plans:			
Net prior service credit arising during period, net of taxes of $675, $305 and $27	**1,083**	497	45
Amortization of net prior service credit included in net income, net of taxes of $(604), $(525) and $(523)	**(988)**	(858)	(860)
Other comprehensive income (loss)	**522**	(353)	(2,743)
Total comprehensive income	**30,369**	12,980	10,944
Less: Total comprehensive income attributable to noncontrolling interest	**(392)**	(377)	(326)
Total Comprehensive Income Attributable to AT&T	**$29,977**	$12,603	$10,618

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

Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31,	
	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	**$ 50,498**	$ 5,788
Accounts receivable – net of allowances for doubtful accounts of $663 and $661	**16,522**	16,794
Prepaid expenses	**1,369**	1,555
Other current assets	**10,757**	14,232
Total current assets	**79,146**	38,369
Property, Plant and Equipment – Net	**125,222**	124,899
Goodwill	**105,449**	105,207
Licenses	**96,136**	94,176
Customer Lists and Relationships – Net	**10,676**	14,243
Other Intangible Assets – Net	**7,464**	8,441
Investments in Equity Affiliates	**1,560**	1,674
Other Assets	**18,444**	16,812
Total Assets	**$444,097**	$403,821
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 38,374**	$ 9,832
Accounts payable and accrued liabilities	**34,470**	31,138
Advanced billings and customer deposits	**4,213**	4,519
Accrued taxes	**1,262**	2,079
Dividends payable	**3,070**	3,008
Total current liabilities	**81,389**	50,576
Long-Term Debt	**125,972**	113,681
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**43,207**	60,128
Postemployment benefit obligation	**31,775**	33,578
Other noncurrent liabilities	**19,747**	21,748
Total deferred credits and other noncurrent liabilities	**94,729**	115,454
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2017 and 2016: issued 6,495,231,088 at December 31, 2017 and 2016)	**6,495**	6,495
Additional paid-in capital	**89,563**	89,604
Retained earnings	**50,500**	34,734
Treasury stock (355,806,544 at December 31, 2017 and 356,237,141 at December 31, 2016, at cost)	**(12,714)**	(12,659)
Accumulated other comprehensive income	**7,017**	4,961
Noncontrolling interest	**1,146**	975
Total stockholders' equity	**142,007**	124,110
Total Liabilities and Stockholders' Equity	**$444,097**	$403,821

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

Consolidated Statements of Cash Flows
Dollars in millions

	2017	2016	2015
Operating Activities			
Net income	**$ 29,847**	$ 13,333	$ 13,687
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**24,387**	25,847	22,016
Undistributed earnings from investments in equity affiliates	**174**	(37)	(49)
Provision for uncollectible accounts	**1,642**	1,474	1,416
Deferred income tax (benefit) expense	**(15,940)**	2,947	4,117
Net (gain) loss from sale of investments, net of impairments	**(282)**	(169)	91
Actuarial loss (gain) on pension and postretirement benefits	**1,258**	1,024	(2,152)
Asset abandonments and impairments	**2,914**	361	35
Changes in operating assets and liabilities:			
Accounts receivable	**(986)**	(1,003)	30
Other current assets	**(777)**	1,708	(1,182)
Accounts payable and accrued liabilities	**816**	118	1,354
Equipment installment receivables and related sales	**(263)**	(576)	(3,023)
Deferred fulfillment costs	**(1,422)**	(2,359)	(1,437)
Retirement benefit funding	**(1,066)**	(910)	(735)
Other – net	**(1,151)**	(2,414)	1,712
Total adjustments	**9,304**	26,011	22,193
Net Cash Provided by Operating Activities	**39,151**	39,344	35,880
Investing Activities			
Capital expenditures:			
Purchase of property and equipment	**(20,647)**	(21,516)	(19,218)
Interest during construction	**(903)**	(892)	(797)
Acquisitions, net of cash acquired	**1,123**	(2,959)	(30,759)
Dispositions	**59**	646	83
Sales (purchases) of securities, net	**(4)**	506	1,545
Other	**1**	—	2
Net Cash Used in Investing Activities	**(20,371)**	(24,215)	(49,144)
Financing Activities			
Issuance of long-term debt	**48,793**	10,140	33,969
Repayment of long-term debt	**(12,339)**	(10,823)	(10,042)
Purchase of treasury stock	**(463)**	(512)	(269)
Issuance of treasury stock	**33**	146	143
Dividends paid	**(12,038)**	(11,797)	(10,200)
Other	**1,944**	(1,616)	(3,819)
Net Cash Provided by (Used in) Financing Activities	**25,930**	(14,462)	9,782
Net increase (decrease) in cash and cash equivalents	**44,710**	667	(3,482)
Cash and cash equivalents beginning of year	**5,788**	5,121	8,603
Cash and Cash Equivalents End of Year	**$ 50,498**	$ 5,788	$ 5,121

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

Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2017		2016		2015	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Issuance of stock	**—**	**—**	—	—	—	—
Balance at end of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Additional Paid-In Capital						
Balance at beginning of year		**$ 89,604**		$ 89,763		$ 91,108
Issuance of treasury stock		**2**		(43)		(1,597)
Share-based payments		**(43)**		(140)		252
Change related to acquisition of interests held by noncontrolling owners		**—**		24		—
Balance at end of year		**$ 89,563**		$ 89,604		$ 89,763
Retained Earnings						
Balance at beginning of year		**$ 34,734**		$ 33,671		$ 31,081
Net income attributable to AT&T ($4.76, $2.10 and $2.37 per diluted share)		**29,450**		12,976		13,345
Dividends to stockholders ($1.97, $1.93 and $1.89 per share)		**(12,157)**		(11,913)		(10,755)
Other		**(1,527)**		—		—
Balance at end of year		**$ 50,500**		$ 34,734		$ 33,671
Treasury Stock						
Balance at beginning of year	**(356)**	**$ (12,659)**	(350)	$ (12,592)	(1,308)	$ (47,029)
Repurchase of common stock	**(14)**	**(551)**	(17)	(655)	(8)	(278)
Issuance of treasury stock	**14**	**496**	11	588	966	34,715
Balance at end of year	**(356)**	**$ (12,714)**	(356)	$ (12,659)	(350)	$ (12,592)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:						
Balance at beginning of year		**$ 4,961**		$ 5,334		$ 8,061
Other comprehensive income (loss) attributable to AT&T		**527**		(373)		(2,727)
Amounts reclassified to retained earnings		**1,529**		—		—
Balance at end of year		**$ 7,017**		$ 4,961		$ 5,334
Noncontrolling Interest:						
Balance at beginning of year		**$ 975**		$ 969		$ 554
Net income attributable to noncontrolling interest		**397**		357		342
Distributions		**(361)**		(346)		(294)
Acquisitions of noncontrolling interests		**140**		—		383
Acquisition of interests held by noncontrolling owners		**—**		(25)		—
Translation adjustments attributable to noncontrolling interest, net of taxes		**(5)**		20		(16)
Balance at end of year		**$ 1,146**		$ 975		$ 969
Total Stockholders' Equity at beginning of year		**$124,110**		$123,640		$ 90,270
Total Stockholders' Equity at end of year		**$142,007**		$124,110		$123,640

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