NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates. Our subsidiaries and affiliates operate in the communications services industry both domestically and internationally, providing wireless communications services, traditional wireline voice services, data/broadband and Internet services, video services, telecommunications equipment, managed networking and wholesale services.

All significant intercompany transactions are eliminated in the consolidation process. Investments in less than majority-owned subsidiaries and partnerships where we have significant influence are accounted for under the equity method. Earnings from certain investments accounted for using the equity method are included for periods ended within up to one month of our year end (see Note 8). We also recorded our proportionate share of our equity method investees' other comprehensive income (OCI) items, including actuarial gains and losses on pension and other postretirement benefit obligations.

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

New Accounting Standards In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" (ASU 2014-09), which replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. Upon initial evaluation, we believe the key changes in the standard that impact our revenue recognition relate to the allocation of contract revenues between service and equipment, and the timing in which those revenues are recognized. ASU 2014-09 also specifies that all incremental costs of obtaining and direct costs of fulfilling our contracts with customers should be deferred and recognized over the contract period or expected customer life. Currently, we generally defer such costs only up to an amount equal to any related deferred revenue. ASU 2014-09 becomes effective for annual reporting periods beginning after December 15, 2016.

The FASB will allow two adoption methods under ASU 2014-09. Under one method, a company will apply the rules to contracts in all reporting periods presented, subject to certain allowable exceptions. Under the other method, a company will apply the rules to all contracts existing as of January 1, 2017, recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and provide additional disclosures comparing results to previous rules. We continue to evaluate the impact of the new standard and available adoption methods.

Income Taxes We provide deferred income taxes for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the computed tax basis of those assets and liabilities. We provide valuation allowances against the deferred tax assets for which the realization is uncertain. We review these items regularly in light of changes in federal and state tax laws and changes in our business.

Cash and Cash Equivalents Cash and cash equivalents include all highly liquid investments with original maturities of three months or less. The carrying amounts approximate fair value. At December 31, 2014, we held $1,257 in cash and $7,346 in money market funds and other cash equivalents.

Revenue Recognition Revenues derived from wireless, local telephone, long distance, data and video services are recognized when services are provided. This is based upon either usage (e.g., minutes of traffic/bytes of data processed), period of time (e.g., monthly service fees) or other established fee schedules. Our service revenues are billed either in advance, arrears or are prepaid.

We record revenue reductions for estimated future adjustments to customer accounts, other than bad debt expense, at the time revenue is recognized based on historical experience. Service revenues include billings to our customers for various regulatory fees imposed on us by governmental authorities. We report revenues from transactions between us and our customers net of taxes the government authorities require us to collect from our customers in our consolidated statements of income. Cash incentives given to customers are recorded as a reduction of revenue. Revenues and associated expenses related to nonrefundable, upfront service activation and setup fees are deferred and recognized over the associated service contract period or customer life. Generally, associated expenses are deferred only up to the amount of deferred revenue. Revenue recognized from contracts that bundle services and equipment is limited to the lesser of the amount allocated based on the relative selling price of the equipment and service already delivered or the amount paid and owed by the customer for the equipment and service already delivered. We record the sale of equipment to customers when we no longer have any requirements to perform, when title is passed and when the products are accepted by customers. We record the sale of equipment and services to customers as gross revenue when we are the principal in the arrangement and net of the associated costs incurred when we are not considered the principal in the arrangement.

We offer to our customers the option to purchase certain wireless devices in installments over a period of up to 30 months, with the right to trade in the original equipment for a new device, within a set period, and have the remaining unpaid balance satisfied. For customers that elect these trade-in programs, we recognize revenue for the entire amount of the customer receivable, net of the fair value of the trade-in right guarantee and imputed interest. See Note 16 for additional information, including the sales of our equipment installment receivables.

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

Inventory Inventories, which are included in "Other current assets" on our consolidated balance sheets, were $1,933 at December 31, 2014, and $1,148 at December 31, 2013. Wireless devices and accessories, which are valued at the lower of cost or market (determined using current replacement cost) were $1,858 at December 31, 2014, and $1,031 at December 31, 2013.

Property, Plant and Equipment Property, plant and equipment is stated at cost, except for assets acquired using acquisition accounting, which are initially recorded at fair value (see Note 6). The balance as of December 31, 2013, excluded amounts classified as held for sale (see Note 5). The cost of additions and substantial improvements to property, plant and equipment is capitalized, and includes internal compensation costs for these projects; however, noncash actuarial gains or losses included in compensation costs are excluded from amounts reported as "capital expenditures." The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment costs are depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology. Accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation, and no gain or loss is recognized on the disposition of these assets.

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

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

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

During 2014, we completed studies evaluating the periods that we were utilizing our software assets. As of April 1 and July 1, 2014, we extended our estimated useful lives for capitalized non-network and network software, respectively, to five years to better reflect the estimated periods during which these assets will remain in service and to align with the estimated useful lives used in the industry. This change in accounting estimate decreased depreciation expenses and impacted 2014 net income $513, or $0.10 per diluted share. Prior to 2014, capitalized software costs were primarily amortized over a three-year period.

Goodwill and Other Intangible Assets AT&T has four major classes of intangible assets: goodwill, Federal Communications Commission (FCC) licenses, other indefinite-lived intangible assets, made up predominately of the AT&T brand, and various other finite-lived intangible assets (see Note 7).

Goodwill represents the excess of consideration paid over the fair value of net assets acquired in business combinations. FCC licenses provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for a fixed period of time (generally 10 years), renewals of FCC licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our FCC licenses. We acquired the rights to the AT&T and other brand names in previous acquisitions. We have the effective ability to retain these exclusive rights permanently at a nominal cost.

Goodwill, FCC licenses and other indefinite-lived intangible assets are not amortized but are tested at least annually for impairment. The testing is performed on the value as of October 1 each year, and compares the book value of the assets to their fair value. Goodwill is tested by comparing the book value of each reporting unit, deemed to be our principal operating segments (Wireless and Wireline), to the fair value of those reporting units calculated using a discounted cash flow approach as well as a market multiple approach. FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. We perform our test of the fair values of FCC licenses using a discounted cash flow approach. Brand names are tested by comparing the book value to a fair value calculated using a discounted cash flow approach on a presumed royalty rate derived from the revenues related to the brand name.

Intangible assets that have finite useful lives are amortized over their useful lives (see Note 7). Customer lists and relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the period in which those relationships are expected to contribute to our future cash flows. The remaining finite-lived intangible assets are generally amortized using the straight-line method.

Advertising Costs We expense advertising costs for advertising products and services or for promoting our corporate image as we incur them (see Note 15).

Traffic Compensation Expense We use various estimates and assumptions to determine the amount of traffic compensation expense recognized during any reporting period. Switched traffic compensation costs are accrued utilizing estimated rates and volumes by product, formulated from historical data and adjusted for known rate changes. Such estimates are adjusted monthly to reflect newly available information, such as rate changes and new contractual agreements. Bills reflecting actual incurred information are generally not received within three months subsequent to the end of the reporting period, at which point a final adjustment is made to the accrued switched traffic compensation expense. Dedicated traffic compensation costs are estimated based on the number of circuits and the average projected circuit costs.

Foreign Currency Translation We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. Our foreign subsidiaries and foreign investments generally report their earnings in their local currencies. We translate our share of their foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate our share of their revenues and expenses using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income (accumulated OCI) in the accompanying consolidated balance sheets (see Note 3). 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 foreign currency exchange risk involved in anticipation of highly probable foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 10).

Pension and Other Postretirement Benefits See Note 12 for a comprehensive discussion of our pension and postretirement benefit expense, including a discussion of the actuarial assumptions, our policy for recognizing the associated gains and losses and our method used to estimate service and interest cost components.

NOTE 2. EARNINGS PER SHARE

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

Year Ended December 31,	**2014**	2013	2012
Numerators			
Numerator for basic earnings per share:			
Net income	**$6,518**	$18,553	$7,539
Less: Net income attributable to noncontrolling interest	**(294)**	(304)	(275)
Net income attributable to AT&T	**6,224**	18,249	7,264
Dilutive potential common shares:			
Share-based payment	**13**	12	12
Numerator for diluted earnings per share	**$6,237**	$18,261	$7,276
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	**5,205**	5,368	5,801
Dilutive potential common shares:			
Share-based payment (in shares)	**16**	17	20
Denominator for diluted earnings per share	**5,221**	5,385	5,821
Basic earnings per share attributable to AT&T	**$ 1.19**	$ 3.39	$ 1.25
Diluted earnings per share attributable to AT&T	**$ 1.19**	$ 3.39	$ 1.25

Dollars in millions except per share amounts

NOTE 3. OTHER COMPREHENSIVE INCOME

Changes in the balances of each component included in accumulated OCI are presented below. For the year ended December 31, 2014, the amounts reclassified from accumulated OCI include amounts realized upon the sale of our investment in América Móvil, S.A. de C.V. (América Móvil) (see Note 5). All amounts are net of tax and exclude noncontrolling interest.

At December 31, 2014 and 2013 and for the years ended	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of December 31, 2012	$(284)	$ 272	$(110)	$ 5,358	$ 5,236
Other comprehensive income (loss) before reclassifications	(138)	257	525	2,765	3,409
Amounts reclassified from accumulated OCI	55[1]	(79)[2]	30[3]	(771)[4]	(765)
Net other comprehensive income (loss)	(83)	178	555	1,994	2,644
Balance as of December 31, 2013	(367)	450	445	7,352	7,880
Other comprehensive income (loss) before reclassifications	(75)	64	260	428	677
Amounts reclassified from accumulated OCI	416[1]	(16)[2]	36[3]	(933)[4]	(497)
Net other comprehensive income (loss)	341	48	296	(505)	180
Balance as of December 31, 2014	**$ (26)**	**$498**	**$741**	**$6,847**	**$8,060**

[1] Translation (gain) loss reclassifications are included in Other income (expense) – net in the consolidated statements of income.
[2] (Gains) losses are included in Other income (expense) – net in the consolidated statements of income.
[3] (Gains) losses are included in interest expense in the consolidated statements of income. See Note 10 for additional information.
[4] The amortization of prior service credits associated with postretirement benefits, net of amounts capitalized as part of construction labor, are included in Cost of services and sales and Selling, general and administrative in the consolidated statements of income (see Note 12). Actuarial loss reclassifications related to our equity method investees are included in Other income (expense) – net in the consolidated statements of income.

NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. We analyze our operating segments based on segment income before income taxes. We make our capital allocation decisions based on our strategic direction of the business, needs of the network (wireless or wireline) providing services and to provide emerging services to our customers. Actuarial gains and losses from pension and other postretirement benefits, interest expense and other income (expense) – net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in each segment's reportable results. The customers and long-lived assets of our reportable segments are predominantly in the United States. We have two reportable segments: (1) Wireless and (2) Wireline. Our operating results prior to May 9, 2012, also included our sold Advertising Solutions segment (see Note 5).

The *Wireless segment* uses our nationwide network to provide consumer and business customers with wireless data and voice communications services. This segment included our portion of the results from our equity investment in the Softcard™ mobile wallet joint venture.

The *Wireline segment* uses our regional, national and global network to provide consumer and business customers with data and voice communications services, AT&T U-verse® high speed Internet, video and VoIP services and managed networking to business customers.

The Corporate and Other column includes unallocated corporate expenses, which includes costs to support corporate-driven activities and operations, impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans as well as our actuarial gains and losses on our pension and postretirement plan valuations. Results from equity method investments in América Móvil (prior to the June 2014 disposal of our investment), YP Holdings LLC, and Otter Media (our joint venture with The Chernin Group), are also excluded from our segment results as those results are not considered in our assessment of segment performance. We have revised our prior-period presentation to conform to our current reporting.

Segment Results, including a reconciliation to AT&T consolidated results, for 2014, 2013, and 2012 are as follows:

At December 31, 2014 and for the year ended	Wireless	Wireline	Advertising Solutions	Corporate and Other	Consolidated Results
Service	**$ 61,032**	**$ 57,405**	**$ —**	**$ —**	**$118,437**
Equipment	**12,960**	**1,020**	**—**	**30**	**14,010**
Total segment operating revenues	**73,992**	**58,425**	**—**	**30**	**132,447**
Operations and support expenses	**48,924**	**42,471**	**—**	**11,033**	**102,428**
Depreciation and amortization expenses	**7,941**	**10,323**	**—**	**9**	**18,273**
Total segment operating expenses	**56,865**	**52,794**	**—**	**11,042**	**120,701**
Segment operating income (loss)	**17,127**	**5,631**	**—**	**(11,012)**	**11,746**
Interest expense	**—**	**—**	**—**	**3,613**	**3,613**
Equity in net income (loss) of affiliates	**(112)**	**—**	**—**	**287**	**175**
Other income (expense) – net	**—**	**—**	**—**	**1,652**	**1,652**
Segment income (loss) before income taxes	**$ 17,015**	**$ 5,631**	**$ —**	**$(12,686)**	**$ 9,960**
Segment Assets	**$156,317**	**$121,794**	**$ —**	**$ 14,718**	**$292,829**
Investments in equity method affiliates	**—**	**—**	**—**	**250**	**250**
Expenditures for additions to long-lived assets	**11,383**	**10,044**	**—**	**6**	**21,433**

At December 31, 2013 and for the year ended	Wireless	Wireline	Advertising Solutions	Corporate and Other	Consolidated Results
Service	$ 61,552	$ 57,700	$ —	$ —	$ 119,252
Equipment	8,347	1,114	—	39	9,500
Total segment operating revenues	69,899	58,814	—	39	128,752
Operations and support expenses	44,508	41,638	—	(6,268)	79,878
Depreciation and amortization expenses	7,468	10,907	—	20	18,395
Total segment operating expenses	51,976	52,545	—	(6,248)	98,273
Segment operating income	17,923	6,269	—	6,287	30,479
Interest expense	—	—	—	3,940	3,940
Equity in net income (loss) of affiliates	(75)	2	—	715	642
Other income (expense) – net	—	—	—	596	596
Segment income before income taxes	$ 17,848	$ 6,271	$ —	$ 3,658	$ 27,777
Segment Assets	$ 141,196	$ 123,714	$ —	$ 12,877	$ 277,787
Investments in equity method affiliates	61	—	—	3,799	3,860
Expenditures for additions to long-lived assets	11,191	10,036	—	1	21,228

For the year ended December 31, 2012	Wireless	Wireline	Advertising Solutions	Corporate and Other	Consolidated Results
Service	$ 59,186	$ 58,271	$1,049	$ —	$ 118,506
Equipment	7,577	1,302	—	49	8,928
Total segment operating revenues	66,763	59,573	1,049	49	127,434
Operations and support expenses	43,296	41,207	773	11,018	96,294
Depreciation and amortization expenses	6,873	11,123	106	41	18,143
Total segment operating expenses	50,169	52,330	879	11,059	114,437
Segment operating income (loss)	16,594	7,243	170	(11,010)	12,997
Interest expense	—	—	—	3,444	3,444
Equity in net income (loss) of affiliates	(62)	(1)	—	815	752
Other income (expense) – net	—	—	—	134	134
Segment income (loss) before income taxes	$ 16,532	$ 7,242	$ 170	$ (13,505)	$ 10,439

NOTE 5. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

Spectrum Acquisitions During 2014, we acquired $1,263 of wireless spectrum, not including Leap Wireless International, Inc. (Leap) discussed below. During 2013, we acquired $895 of wireless spectrum from various companies, not including the 700 MHz, Atlantic Tele-Network Inc. (ATNI) and NextWave purchases discussed below. During 2012, we acquired $855 of wireless spectrum from various companies.

In January 2015, we submitted winning bids for 251 Advanced Wireless Service (AWS) spectrum in the AWS-3 Auction (FCC Auction 97) for $18,189. We provided the FCC an initial down payment of $921 in October 2014 and paid the remaining down payment of $2,717 on February 13, 2015. We will pay the balance of $14,551 on or before March 2, 2015.

Leap In March 2014, we acquired Leap, a provider of prepaid wireless service, for $15.00 per outstanding share of Leap's common stock, or $1,248 (excluding Leap's cash on hand), plus one nontransferable contingent value right (CVR) per share. The CVR will entitle each Leap stockholder to a pro rata share of the net proceeds of the future sale of the Chicago 700 MHz A-band FCC license held by Leap.

The values of assets acquired under the terms of the agreement were: $3,000 in licenses, $510 in property, plant and equipment, $520 of customer lists, $340 for trade names and $248 of goodwill. The estimated fair value of debt associated with the acquisition of Leap was $3,889, all of which was redeemed or matured by July 31, 2014.

700 MHz Spectrum In September 2013, we acquired spectrum in the 700 MHz B band from Verizon Wireless for $1,900 in cash and an assignment of AWS spectrum licenses in five markets. The 700 MHz licenses acquired by AT&T cover 42 million people in 18 states. We recognized a gain of approximately $293 on this and other spectrum transactions.

Atlantic Tele-Network In September 2013, we acquired ATNI's U.S. retail wireless operations, operated under the Alltel brand, for $806 in cash, which included closing adjustments. Under the terms of the agreement, we acquired wireless properties, with a value of $322 in licenses and $296 of goodwill.

NextWave In January 2013, we completed the acquisition of NextWave Wireless Inc. (NextWave), which held wireless licenses in the Wireless Communication Services and AWS bands. We acquired all the equity and purchased a portion of the debt of NextWave for $605. The transaction was accounted for as an asset acquisition of spectrum.

Subsequent and Pending Acquisitions

GSF Telecom On January 16, 2015, we acquired Mexican wireless company GSF Telecom Holdings, S.A.P.I. de C.V. (GSF Telecom) for $2,500, less net debt of approximately $700. GSF Telecom offers service under both the Iusacell and Unefon brand names in Mexico.

NII Holdings Inc. On January 26, 2015, we entered into an agreement with NII Holdings Inc. (NII) to acquire its wireless business in Mexico for $1,875, less any outstanding net debt held by the business at closing, in a transaction pursuant to Section 363 of the U.S. Bankruptcy Code. We will acquire companies, which operate under the name Nextel Mexico, and approximately 3.0 million subscribers.

DIRECTV In May 2014, we announced a merger agreement to acquire DIRECTV in a stock-and-cash transaction for $95.00 per share of DIRECTV's common stock, or approximately $48,500 at the date of announcement. As of December 31, 2014, DIRECTV had approximately $16,177 in net debt. Each DIRECTV shareholder will receive cash of $28.50 per share and $66.50 per share in our stock subject to a collar such that DIRECTV shareholders will receive 1.905 AT&T shares if our average stock price is below $34.90 per share at closing and 1.724 AT&T shares if our average stock price is above $38.58 at closing. If our average stock price (calculated in accordance with the merger agreement with DIRECTV) is between $34.90 and $38.58 at closing, then DIRECTV shareholders will receive a number of shares between 1.724 and 1.905, equal to $66.50 in value. DIRECTV is a premier pay TV provider in the United States and Latin America, with a high-quality customer base, the best selection of programming, the best technology for delivering and viewing high-quality video on any device and the best customer satisfaction among major U.S. cable and satellite TV providers.

The merger agreement was adopted by DIRECTV's stockholders on September 25, 2014 and remains subject to review by the FCC and the Department of Justice and to other closing conditions. It is also a condition that all necessary consents by certain foreign governmental entities have been obtained and are in full force and effect. The transaction is expected to close in the first half of 2015. The merger agreement provides certain mutual termination rights for us and DIRECTV, including the right of either party to terminate the agreement if the merger is not consummated by May 18, 2015, subject to extension in certain cases to a date no later than November 13, 2015. Either party may also terminate the agreement if an order permanently restraining, enjoining, or otherwise prohibiting consummation of the merger becomes final and nonappealable. In October 2014, DIRECTV and the National Football League renewed their agreement for the "NFL Sunday Ticket" service substantially on the terms discussed between AT&T and DIRECTV, satisfying one of the conditions to closing the merger. Under certain circumstances relating to a competing transaction, DIRECTV may be required to pay a termination fee to us in connection with or following a termination of the agreement.

Dispositions

Connecticut Wireline On October 24, 2014, we sold our incumbent local exchange operations in Connecticut for $2,018 and recorded a pre-tax gain of $147, which is included in “Other income (expense) – net,” on our consolidated statements of income. In conjunction with the sale, we allocated $743 of goodwill from our Wireline reporting unit. Because the book value of the goodwill did not have a corresponding tax basis, the resulting net income impact of the sale was a loss of $289.

We applied held-for-sale treatment to the assets and liabilities of the Connecticut operations, and, accordingly, included the assets in “Other current assets,” and the related liabilities in “Accounts payable and accrued liabilities,” on our consolidated balance sheets at December 31, 2013. However, the business did not qualify as discontinued operations as we expect significant continuing direct cash flows related to the disposed operations. Assets and liabilities of the Connecticut operations included the following as of December 31, 2013:

Assets held for sale:	
Current assets	**$ 155**
Property, plant and equipment – net	**1,289**
Goodwill	**799**
Other assets	**17**
Total assets	**$2,260**
Liabilities related to assets held for sale:	
Current liabilities	**$ 128**
Noncurrent liabilities	**480**
Total liabilities	**$ 608**

América Móvil In 2014, we sold our remaining stake in América Móvil for approximately $5,885 and recorded a pre-tax gain of $1,330, which is included in “Other income (expense) – net,” on our consolidated statements of income. In 2013, we sold a portion of our shares in América Móvil for approximately $1,179. América Móvil was accounted for as an equity method investment (see Note 8).

Advertising Solutions In May 2012, we completed the sale of our Advertising Solutions segment to an affiliate of Cerberus Capital Management, L.P. for approximately $740 in cash after closing adjustments, a $200 advance, which was repaid in 2013, and a 47 percent equity interest in the new entity, YP Holdings. Our operating results include the results of the Advertising Solutions segment through May 8, 2012.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

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

	Lives (years)	**2014**	2013
Land	—	**$ 1,567**	$ 1,523
Buildings and improvements	10-44	**32,204**	31,485
Central office equipment[1]	3-10	**89,857**	86,370
Cable, wiring and conduit	15-50	**72,766**	76,107
Other equipment	3-15	**74,244**	67,887
Software	3-5[2]	**8,604**	8,150
Under construction	—	**3,053**	3,276
		282,295	274,798
Accumulated depreciation and amortization		**169,397**	163,830
Property, plant and equipment – net		**$112,898**	$110,968

[1] Includes certain network software.
[2] Reflects extended estimated useful life (see Note 1).

Our depreciation expense was $17,773 in 2014, $17,722 in 2013 and $16,933 in 2012. Depreciation expense included amortization of software totaling $1,504 in 2014, $2,142 in 2013 and $2,130 in 2012.

We periodically assess our network assets for impairment, and our analysis in 2014 indicated no impairment. However, due to declining customer demand for our legacy voice and data products and the migration of our networks to next generation technologies, we decided in the fourth quarter of 2014 to abandon in place specific copper network assets classified as cable, wiring and conduit. These abandoned assets had a gross book value of approximately $7,141, with accumulated depreciation of $5,021. We recorded a $2,120 noncash charge for this abandonment, which is included in “Abandonment of network assets” on our consolidated statements of income.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were $4,345 for 2014, $3,683 for 2013, and $3,507 for 2012. At December 31, 2014, the future minimum rental payments under noncancelable operating leases for the years 2015 through 2019 were $3,879, $3,641, $3,290, $2,981, and $2,713, with $14,543 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. Capital leases are not significant.

Dollars in millions except per share amounts

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amounts of goodwill, by segment (which is the same as the reporting unit for Wireless and Wireline) were as follows:

	Wireless	Wireline	Total
Balance as of January 1, 2013	$ 35,803	$ 33,970	$ 69,773
Goodwill acquired	305	—	305
Held for sale	—	(799)	(799)
Other	(2)	(4)	(6)
Balance as of December 31, 2013	36,106	33,167	69,273
Goodwill acquired	367	—	367
Other	(4)	56	52
Balance as of December 31, 2014	**$36,469**	**$33,223**	**$69,692**

The majority of our goodwill acquired during 2014 related to our acquisition of Leap (see Note 5). Other changes to our goodwill during 2014 include adjustments related to closing the sale of our Connecticut operations (see Note 5). Changes to goodwill during 2013 resulted from the acquisition of ATNI and the held for sale adjustment to goodwill in conjunction with the sale of our Connecticut operations (see Note 5).

Our other intangible assets are summarized as follows:

	December 31, 2014		December 31, 2013	
Other Intangible Assets	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships:				
Wireless Acquisitions	**$ 1,082**	**$ 550**	$ 982	$ 771
BellSouth Corporation	**5,825**	**5,559**	5,825	5,317
AT&T Corp.	**56**	**42**	2,482	2,438
Subtotal	**6,963**	**6,151**	9,289	8,526
Other	**275**	**189**	284	169
Total	**$ 7,238**	**$6,340**	$ 9,573	$8,695
Indefinite-lived intangible assets not subject to amortization:				
Licenses	**$60,824**		$56,433	
Trade names	**5,241**		4,901	
Total	**$66,065**		$61,334	

As discussed in Note 5, license additions in 2014 were primarily related to the Leap acquisition, with the remainder originating from various spectrum license purchases.

Amortized intangible assets are definite-life assets, and as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets, over a weighted-average of 9.8 years (9.7 years for customer lists and relationships and 12.1 years for other). Amortization expense for definite-life intangible assets was $500 for the year ended December 31, 2014, $672 for the year ended December 31, 2013, and $1,210 for the year ended December 31, 2012. Amortization expense is estimated to be $350 in 2015, $244 in 2016, $177 in 2017, $57 in 2018, and $28 in 2019.

In 2014, we wrote off approximately $2,850 of fully amortized intangible assets (primarily customer lists). In 2013, we wrote off approximately $6,217 of fully amortized intangible assets (primarily customer lists). We review other amortizing intangible assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

We review indefinite-lived intangible assets for impairment annually (see Note 1). Licenses include wireless FCC licenses that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services.

NOTE 8. EQUITY METHOD INVESTMENTS

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

Our investments in equity affiliates at December 31, 2014 primarily include our interests in Otter Media Holdings, YP Holdings and Root Sports Southwest.

Otter Media Holdings We hold a 38% interest in Otter Media Holdings, which was acquired in 2014 and is a venture between The Chernin Group and AT&T, which is focused on acquiring, investing in and launching over-the-top subscription video services.

YP Holdings We hold a 47% interest in YP Holdings, an online advertising company and directory publisher. During 2013, we received $200 from the repayment of advances to YP Holdings and $101 from the return of investment in YP Holdings.

Root Sports Southwest We hold a 40% interest in Root Sports Southwest, which was acquired in 2014 and is part of regional sports networks owned and operated by DIRECTV Sports Networks LLC.

América Móvil We sold our remaining stake in América Móvil in June 2014 (see Note 5).

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

	2014	2013
Beginning of year	**$ 3,860**	$4,581
Additional investments	**226**	111
Equity in net income of affiliates	**175**	642
Dividends and distributions received	**(148)**	(318)
Currency translation adjustments	**—**	61
Sale of América Móvil shares	**(3,817)**	(781)
Return of advances to and investments in YP Holdings	**—**	(301)
América Móvil equity adjustments	**—**	(124)
Other adjustments	**(46)**	(11)
End of year	**$ 250**	$3,860

Undistributed earnings from equity affiliates were $88 and $3,346 at December 31, 2014 and 2013.

NOTE 9. DEBT

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

		2014	2013
Notes and debentures			
Interest Rates	Maturities[1]		
0.60% – 2.99%	2015 – 2022	**$22,127**	$18,774
3.00% – 4.99%	2014 – 2045	**31,516**	22,327
5.00% – 6.99%	2014 – 2095	**23,260**	28,513
7.00% – 9.10%	2014 – 2097	**6,153**	6,268
Other		**—**	1
Fair value of interest rate swaps recorded in debt		**125**	154
		83,181	76,037
Unamortized (discount) premium – net		**(1,549)**	(1,553)
Total notes and debentures		**81,632**	74,484
Capitalized leases		**430**	283
Total long-term debt, including current maturities		**82,062**	74,767
Current maturities of long-term debt		**(6,051)**	(5,477)
Total long-term debt		**$76,011**	$69,290

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

We had outstanding Euro, British pound sterling, Canadian dollar and Swiss Franc denominated debt of approximately $24,655 and $18,146 at December 31, 2014 and 2013. The weighted-average interest rate of our entire long-term debt portfolio, including the impact of derivatives, decreased from 4.4% at December 31, 2013 to 4.2% at December 31, 2014.

Current maturities of long-term debt include debt that may be put back to us by the holders in 2015. We have $1,000 of annual put reset securities that may be put each April until maturity in 2021. If the holders do not require us to repurchase the securities, the interest rate will be reset based on current market conditions. Likewise, we have an accreting zero-coupon note that may be redeemed each May, until maturity in 2022. If the zero-coupon note (issued for principal of $500 in 2007) is held to maturity, the redemption amount will be $1,030.

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

	2014	2013
Current maturities of long-term debt	**$6,051**	$5,477
Commercial paper	**—**	20
Bank borrowings[1]	**5**	1
Total	**$6,056**	$5,498

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

Dollars in millions except per share amounts

Debt Refinancing

During 2014, we received net proceeds of $15,926 from the issuance of $16,013 in long-term debt in various markets, with an average weighted maturity of approximately 13 years and a weighted average coupon of 2.4%. We redeemed $10,400 in borrowings of various notes with stated rates of 0.875% to 7.75%.

On January 29, 2015, we issued $2,619 of 4.600% global notes due 2045.

As of December 31, 2014 and 2013, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Maturities of outstanding long-term notes and debentures, as of December 31, 2014, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2015	2016	2017	2018	2019	There-after
Debt repayments[1]	$6,482	$5,523	$6,508	$5,800	$6,348	$54,205
Weighted-average interest rate	4.0%	2.1%	2.4%	4.6%	3.7%	4.9%

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

Credit Facilities

We have a $5,000 revolving credit agreement with a syndicate of banks that expires in December 2018 (the “December 2018 Facility”) and a $3,000 revolving credit agreement with a syndicate of banks that expires in December 2017 (the “December 2017 Facility”). In addition, on January 21, 2015, we entered into a $9,155 credit agreement (the “Syndicated Credit Agreement”) containing (i) a $6,286 term loan facility (the “Tranche A Facility”) and (ii) a $2,869 term loan facility (the “Tranche B Facility”), with certain investment and commercial banks and Mizuho Bank, Ltd. (“Mizuho”), as administrative agent. On that date, AT&T also entered into a $2,000 18-month credit agreement (the “18-Month Credit Agreement”) with Mizuho as initial lender and agent.

Revolving Credit Agreements

In the event advances are made under either the December 2018 Facility or the December 2017 Facility, those advances would be used for general corporate purposes. Advances are not conditioned on the absence of a material adverse change. All advances must be repaid no later than the date on which lenders are no longer obligated to make any advances under each agreement. Under each agreement, we can terminate, in whole or in part, amounts committed by the lenders in excess of any outstanding advances; however, we cannot reinstate any such terminated commitments. At December 31, 2014, we had no advances outstanding under either agreement and were in compliance with all covenants under each agreement.

Advances under both agreements would bear interest, at AT&T’s option, either:

- at a variable annual rate equal to (1) the highest of: (a) the base (or prime) rate of the bank affiliate of Citibank, N.A. which is serving as administrative agent under the Agreement, (b) 0.50% per annum above the Federal funds rate, and (c) the London Interbank Offered Rate (LIBOR) applicable to U.S. dollars for a period of one month plus 1.00% per annum, plus (2) an applicable margin, as set forth in the Agreement (Applicable Margin; each such advance, a Base Rate Advance); or
- at a rate equal to: (i) the LIBOR for a period of one, two, three or six months, as applicable, plus (ii) the Applicable Margin (each such advance, a Eurodollar Rate Advance).

The Applicable Margin for a Eurodollar Rate Advance under both agreements will equal 0.565%, 0.680%, or 0.910% per annum, depending on AT&T’s credit rating. The Applicable Margin for a Base Rate Advance under both agreements will be 0%.

Under each agreement, AT&T will pay a facility fee of 0.060%, 0.070% or 0.090% per annum, depending on AT&T’s credit rating, of the amount of lender commitments.

Both agreements contain covenants that are customary for an issuer with an investment grade senior debt credit rating. Among other covenants, both agreements provide that AT&T will maintain, as of the last day of each fiscal quarter, a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreements) ratio of not more than 3-to-1, for the four quarters then ended.

Events of default under both agreements are customary for facilities of this nature and result in the acceleration or permit the lenders to accelerate, as applicable, required repayment and would increase the Applicable Margin by 2.00% per annum.

The obligations of the lenders under the December 2017 Facility to provide advances will terminate on December 11, 2017, unless prior to that date either: (i) AT&T, and if applicable, a Co-Borrower, reduce to $0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than

50% of the facility amount may agree to extend their commitments for two one-year periods beyond the December 11, 2017, termination date, under certain circumstances. We also can request the lenders to further increase their commitments (i.e., raise the available credit) up to an additional $2,000 provided no event of default has occurred. The same provisions apply to the December 2018 Facility except that the applicable date is December 11, 2018.

The Syndicated Credit Agreement

In the event advances are made under the Syndicated Credit Agreement, those advances would be used for general corporate purposes, including acquisition related payments. Amounts borrowed under the Tranche A Facility will be due and payable on the third anniversary of funding. Amounts borrowed under the Tranche B Facility will be subject to amortization from the third anniversary of funding, with twenty-five percent of the aggregate principal amount thereof being payable prior to the fifth anniversary thereof, and all remaining principal amount due and payable on such fifth anniversary. The obligations of the lenders under the Syndicated Credit Agreement to provide advances extend from the effective date of the agreement to a termination date of March 21, 2015, unless prior to that date either: (i) AT&T reduces to $0 the commitments of the lenders under the Syndicated Credit Agreement or (ii) certain events of default occur.

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

- at a variable annual rate equal to: (1) the highest of (a) Mizuho's publicly-announced prime rate, (b) 0.50% per annum above the Federal funds rate, and (c) the ICE Benchmark Administration Limited Settlement Rate applicable to dollars for a period of one month plus 1.00%, plus (2) an applicable margin, as set forth in the Syndicated Credit Agreement (Applicable Margin) (each such Advance, a Base Rate Advance); or
- at a rate equal to: (i) the LIBOR for deposits in dollars (adjusted upwards to reflect any bank reserve costs) for a period of three or six months, as applicable, plus (ii) the Applicable Margin (each such Advance, a Eurodollar Rate Advance).

The Applicable Margin for a Eurodollar Rate Advance under the Tranche A Facility will equal 1.000%, 1.125% or 1.250% per annum depending on AT&T's credit rating. The Applicable Margin for a Base Rate Advance under the Tranche A Facility will be equal to the relevant Applicable Margin for a Eurodollar Rate Advance under the Tranche A Facility minus 1.00%.

The Applicable Margin for a Eurodollar Rate Advance under the Tranche B Facility will equal 1.125%, 1.250% or 1.375% per annum, depending on AT&T's credit rating. The Applicable Margin for a Base Rate Advance under the Tranche B Facility will be equal to the relevant Applicable Margin for a Eurodollar Rate Advance under the Tranche B Facility minus 1.00%.

The Syndicated Credit Agreement contains covenants that are customary for an issuer with an investment grade senior debt credit rating. Among other things, the Syndicated Credit Agreement requires us to maintain a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the Syndicated Credit Agreement) ratio of not more than 3-to-1, as of the last day of each fiscal quarter.

Events of default are customary for an agreement of this nature and result in the acceleration or permit the lenders to accelerate, as applicable, required payment and which would increase the Applicable Margin by 2.00% per annum.

The 18-Month Credit Agreement

As with the Syndicated Credit Agreement, advances under the 18-Month Credit Agreement would be used for general corporate purposes, including acquisition related payments. Amounts borrowed under the 18-Month Credit Agreement will be due and payable on the date that is 18 months after the funding. The obligations of the lender under the 18-Month Credit Agreement to provide advances extend from the effective date of the agreement to a termination date of March 21, 2015, unless prior to that date either: (i) AT&T reduces to $0 the commitment of the lender under the 18-Month Credit Agreement or (ii) certain events of default occur.

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

- at a variable annual rate equal to: (1) the highest of (a) Mizuho's publicly-announced prime rate, (b) 0.50% per annum above the Federal funds rate, and (c) the ICE Benchmark Administration Limited Settlement Rate applicable to dollars for a period of one month plus 1.00%, plus (2) an applicable margin, as set forth in the 18-Month Credit Agreement (Applicable Margin) (each such Advance, a Base Rate Advance); or
- at a rate equal to: (i) the LIBOR for deposits in dollars (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) the Applicable Margin (each such Advance, a Eurodollar Rate Advance).

Dollars in millions except per share amounts

The Applicable Margin for a Eurodollar Rate Advance under the 18-Month Credit Agreement will equal 0.800%, 0.900% or 1.000% per annum, depending on AT&T's credit rating. The Applicable Margin for a Base Rate Advance under the 18-Month Credit Agreement will be 0%.

In the event that AT&T's unsecured senior long-term debt ratings are split by S&P, Moody's and Fitch, then the Applicable Margin will be determined by the highest rating, unless the lowest of such ratings is more than one level below the highest of such ratings, in which case the pricing will be the rating that is one level above the lowest of such ratings.

The 18-Month Credit Agreement contains affirmative and negative covenants and events of default equivalent to those contained in the Syndicated Credit Agreement.

NOTE 10. FAIR VALUE MEASUREMENTS AND DISCLOSURE

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

LEVEL 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we have the ability to access.
LEVEL 2	Inputs to the valuation methodology include: • Quoted prices for similar assets and liabilities in active markets. • Quoted prices for identical or similar assets or liabilities in inactive markets. • Inputs other than quoted market prices that are observable for the asset or liability. • Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
LEVEL 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement. • Fair value is often based on developed models in which there are few, if any, external observations.

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

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable value or reflective of future fair values. We believe our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used since December 31, 2013.

Long-Term Debt and Other Financial Instruments

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

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures	**$81,632**	**$90,367**	$74,484	$79,309
Commercial paper	**—**	**—**	20	20
Bank borrowings	**5**	**5**	1	1
Investment securities	**2,735**	**2,735**	2,450	2,450

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

Following is the fair value leveling for available-for-sale securities and derivatives as of December 31, 2014, and December 31, 2013:

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-Sale Securities				
Domestic equities	**$1,160**	**$ —**	**$ —**	**$ 1,160**
International equities	**553**	**—**	**—**	**553**
Fixed income bonds	**—**	**836**	**—**	**836**
Asset Derivatives[1]				
Interest rate swaps	**—**	**157**	**—**	**157**
Cross-currency swaps	**—**	**1,243**	**—**	**1,243**
Interest rate locks	**—**	**5**	**—**	**5**
Liability Derivatives[1]				
Cross-currency swaps	**—**	**(1,506)**	**—**	**(1,506)**
Interest rate locks	**—**	**(133)**	**—**	**(133)**

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities				
Domestic equities	$ 1,049	$ —	$ —	$ 1,049
International equities	563	—	—	563
Fixed income bonds	—	759	—	759
Asset Derivatives[1]				
Interest rate swaps	—	191	—	191
Cross-currency swaps	—	1,951	—	1,951
Liability Derivatives[1]				
Interest rate swaps	—	(7)	—	(7)
Cross-currency swaps	—	(519)	—	(519)

[1] Derivatives designated as hedging instruments are reflected as "Other assets," "Other noncurrent liabilities" and, for a portion of interest rate swaps, "Other current assets" in our consolidated balance sheets.

Investment Securities

Our investment securities include equities, fixed income bonds and other securities. A substantial portion of the fair values of our available-for-sale securities was estimated based on quoted market prices. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Realized gains and losses on securities are included in "Other income (expense) – net" in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated OCI. Unrealized losses that are considered other than temporary are recorded in "Other income (expense) – net" with the corresponding reduction to the carrying basis of the investment. Fixed income investments of $102 have maturities of less than one year, $417 within one to three years, $75 within three to five years, and $242 for five or more years.

Our cash equivalents (money market securities), short-term investments (certificate and time deposits) and customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values. Our short-term investments of $1,890 are recorded in "Other current assets" and our investment securities are recorded in "Other Assets" on the consolidated balance sheets.

Derivative Financial Instruments

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

The majority of our derivatives are designated either as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

Dollars in millions except per share amounts

Fair Value Hedging We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed-rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense in the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. Changes in the fair values of the interest rate swaps are exactly offset by changes in the fair value of the underlying debt. Gains or losses realized upon early termination of our fair value hedges are recognized in interest expense. In the years ended December 31, 2014, and December 31, 2013, no ineffectiveness was measured on interest rate swaps designated as fair value hedges.

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

Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities, both for the period they are outstanding. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as "Other income (expense) – net" in the consolidated statements of income in each period. We evaluate the effectiveness of our cross-currency swaps each quarter. In the years ended December 31, 2014, and December 31, 2013, no ineffectiveness was measured on cross-currency swaps designated as cash flow hedges.

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. In the years ended December 31, 2014, and December 31, 2013, no ineffectiveness was measured on interest rate locks. Over the next 12 months, we expect to reclassify $39 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks. Our unutilized interest rate locks carry mandatory early terminations, the latest occurring in the first half of 2015.

We hedge a portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Some of these instruments are designated as cash flow hedges while others remain nondesignated, largely based on size and duration. Gains and losses at the time we settle or take delivery on our designated foreign exchange contracts are amortized into income in the same period the hedged transaction affects earnings, except where an amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. In the years ended December 31, 2014, and December 31, 2013, no ineffectiveness was measured on foreign exchange contracts designated as cash flow hedges.

Collateral and Credit-Risk Contingency We have entered into agreements with our derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. At December 31, 2014, we had posted collateral of $530 (a deposit asset) and held collateral of $599 (a receipt liability). Under the agreements, if our credit rating had been downgraded one rating level by Moody's Investor Service and Standard & Poor's Rating Services and two rating levels by Fitch Ratings, before the final collateral exchange in December, we would have been required to post additional collateral of $91. At December 31, 2013, we had posted collateral of $8 (a deposit asset) and held collateral of $1,600 (a receipt liability). We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), against the fair value of the derivative instruments.

Following is the notional amount of our outstanding derivative positions at December 31:

	2014	2013
Interest rate swaps	**$ 6,550**	$ 4,750
Cross-currency swaps	**26,505**	17,787
Interest rate locks	**6,750**	—
Total	**$39,805**	$22,537

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

Effect of Derivatives on the Consolidated Statements of Income

Fair Value Hedging Relationships For the years ended December 31,	**2014**	2013	2012
Interest rate swaps (Interest expense):			
Gain (Loss) on interest rate swaps	**$(29)**	$(113)	$(179)
Gain (Loss) on long-term debt	**29**	113	179

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

Cash Flow Hedging Relationships For the year ended December 31,	**2014**	2013	2012
Cross-currency swaps:			
Gain (Loss) recognized in accumulated OCI	**$ 528**	$ 813	$ 432
Interest rate locks:			
Gain (Loss) recognized in accumulated OCI	**(128)**	—	—
Interest income (expense) reclassified from accumulated OCI into income	**(44)**	(46)	(43)
Foreign exchange contracts:			
Gain (Loss) recognized in accumulated OCI	**—**	(2)	5

NOTE 11. INCOME TAXES

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

	2014	2013
Depreciation and amortization	**$ 47,082**	$43,623
Intangibles (nonamortizable)	**1,874**	1,874
Employee benefits	**(11,679)**	(9,072)
Net operating loss and other carryforwards	**(2,126)**	(2,272)
Other – net	**69**	29
Subtotal	**35,220**	34,182
Deferred tax assets valuation allowance	**1,182**	927
Net deferred tax liabilities	**$ 36,402**	$35,109
Net long-term deferred tax liabilities	**$ 37,544**	$36,308
Less: Net current deferred tax assets	**(1,142)**	(1,199)
Net deferred tax liabilities	**$ 36,402**	$35,109

At December 31, 2014, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of $222 and for state and foreign income tax purposes of $959, expiring through 2033. Additionally, we had state credit carryforwards of $945, expiring primarily through 2033.

We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. Our valuation allowances at December 31, 2014 and 2013, related primarily to state net operating losses and state credit carryforwards.

We recognize the financial statement effects of a tax return position when it is more likely than not, based on the technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, we apply our judgment, taking into account applicable tax laws, our experience in managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in our financial statements. For each position, the difference between the benefit realized on our tax return and the benefit reflected in our financial statements is recorded on our consolidated balance sheets as an unrecognized tax benefit (UTB). We update our UTBs at each financial statement date to reflect the impacts of audit settlements and other resolutions of audit issues, the expiration of statutes of limitation, developments in tax law and ongoing discussions with taxing authorities. A reconciliation of the change in our UTB balance from January 1 to December 31 for 2014 and 2013 is as follows:

Federal, State and Foreign Tax	**2014**	2013
Balance at beginning of year	**$ 4,227**	$ 4,793
Increases for tax positions related to the current year	**470**	255
Increases for tax positions related to prior years	**484**	488
Decreases for tax positions related to prior years	**(657)**	(1,238)
Lapse of statute of limitations	**(38)**	(24)
Settlements	**(21)**	(47)
Balance at end of year	**4,465**	4,227
Accrued interest and penalties	**973**	1,034
Gross unrecognized income tax benefits	**5,438**	5,261
Less: Deferred federal and state income tax benefits	**(434)**	(481)
Less: Tax attributable to timing items included above	**(2,400)**	(2,121)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	**$ 2,604**	$ 2,659

Periodically we make deposits to taxing jurisdictions which reduce our UTB balance but are not included in the reconciliation above. The amount of deposits that reduced our UTB balance was $2,258 at December 31, 2014, and $2,303 at December 31, 2013.

Accrued interest and penalties included in UTBs were $973 as of December 31, 2014, and $1,034 as of December 31, 2013. We record interest and penalties related to federal, state and foreign UTBs in income tax expense. The net interest and penalty expense (benefit) included in income tax expense was $(64) for 2014, $35 for 2013, and $(74) for 2012.

Dollars in millions except per share amounts

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. As a large taxpayer, our income tax returns are regularly audited by the Internal Revenue Service (IRS) and other taxing authorities. The IRS has completed field examinations of our tax returns through 2010. All audit periods prior to 2003 are closed for federal examination purposes. Contested issues from our 2003 through 2010 returns are at various stages of resolution with the IRS Appeals Division; we are unable to estimate the impact the resolution of these issues may have on our UTBs.

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

	2014	2013	2012
Federal:			
Current	**$1,609**	$3,043	$ 451
Deferred – net	**1,904**	5,692	2,256
	3,513	8,735	2,707
State, local and foreign:			
Current	**61**	(61)	702
Deferred – net	**(132)**	550	(509)
	(71)	489	193
Total	**$3,442**	$9,224	$2,900

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

	2014	2013	2012
Taxes computed at federal statutory rate	**$3,486**	$9,722	$3,654
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	**(127)**	294	85
Connecticut wireline sale	**325**	—	—
Loss of foreign tax credits in connection with América Móvil sale	**386**	—	—
Other – net	**(628)**	(792)	(839)
Total	**$3,442**	$9,224	$2,900
Effective Tax Rate	**34.6%**	33.2%	27.8%

NOTE 12. PENSION AND POSTRETIREMENT BENEFITS

Pension Benefits and Postretirement Benefits

Substantially all of our U.S. employees are covered by one of our noncontributory pension plans. The majority of our newly hired employees, longer-service management and some nonmanagement employees participate in cash balance pension programs that include annual or monthly credits based on salary as well as an interest credit.

Other longer-service management employees participate in pension programs that have a traditional pension formula (i.e., a stated percentage of employees' adjusted career income). Other longer-service nonmanagement employees' pension benefits are generally calculated using one of two formulas: a flat dollar amount applied to years of service according to job classification or a cash balance plan with negotiated annual pension band credits as well as interest credits. Most nonmanagement employees can elect to receive their pension benefits in either a lump sum payment or an annuity. Effective January 1, 2015, the pension plan was amended so that new management hires are no longer eligible for the plan.

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

In December 2014, we announced an opportunity for certain management employees who are retirement eligible as of March 31, 2015 to elect an enhanced, full lump sum payment option of their accrued pension if they retire on or before March 31, 2015. Eligible participants are required to accept the offer by March 6, 2015. Our 2015 results will include special termination benefits as a result of this offer.

In October 2013, we offered an opportunity for certain retirement-eligible employees to elect a full lump sum payment of their accrued pension if they retired as of December 30, 2013. The lump sum value was calculated using the August 2012 discount rates for some pension programs and was equal to the cash balance amount for the management new hire pension program. The lump sum value totaled approximately $2,700, which was distributed in 2014. We recorded special termination benefits of $15 in 2014 and $250 in 2013 as a result of this offer.

In October 2013, as part of our 2014 annual benefits enrollment process, we communicated an amendment to our Medicare-eligible retirees that beginning in 2015 AT&T will provide access to retiree health insurance coverage that supplements government-sponsored Medicare through a private insurance marketplace. The plan was further amended in 2014 to include access to dental benefits through the private insurance marketplace. This new approach will allow retirees to choose insurance with the terms, cost and coverage that best fits their needs, while still receiving financial support as determined by AT&T. We expect that the cost to AT&T for retiree medical coverage in 2015 will be comparable to 2014. Future changes in support, if any, will be based on a number of factors such as business conditions, government actions, marketplace changes and the general consumer inflation rate.

In the fourth quarter of 2014, we changed the method we use to estimate the service and interest components of net periodic benefit cost for pension and other postretirement benefits. This change compared to the previous method resulted in a decrease in the service and interest components for pension cost in the fourth quarter. Historically, we estimated these service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We have elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We have made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change does not affect the measurement of our total benefit obligations or our annual net periodic benefit cost as the change in the service and interest costs is completely offset in the actuarial (gain) loss reported. We have accounted for this change as a change in accounting estimate that is inseparable from a change in accounting principle and accordingly have accounted for it prospectively.

Obligations and Funded Status

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

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

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

	Pension Benefits		Postretirement Benefits	
	2014	2013	**2014**	2013
Benefit obligation at beginning of year	**$56,560**	$58,911	**$30,285**	$37,431
Service cost – benefits earned during the period	**1,134**	1,321	**233**	352
Interest cost on projected benefit obligation	**2,470**	2,429	**1,458**	1,532
Amendments	**(73)**	—	**(617)**	(4,460)
Actuarial (gain) loss	**6,269**	(2,390)	**1,822**	(2,098)
Special termination benefits	**17**	255	**—**	1
Benefits paid	**(6,543)**	(3,966)	**(2,298)**	(2,473)
Transfer for sale of Connecticut wireline operations	**(293)**	—	**(174)**	—
Plan transfers	**2**	—	**—**	—
Benefit obligation at end of year	**$59,543**	$56,560	**$30,709**	$30,285

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

	Pension Benefits		Postretirement Benefits	
	2014	2013	**2014**	2013
Fair value of plan assets at beginning of year	**$ 47,238**	$45,060	**$ 8,960**	$ 9,295
Actual return on plan assets	**4,213**	5,935	**384**	1,347
Benefits paid[1]	**(6,543)**	(3,966)	**(1,498)**	(1,682)
Contributions	**562**	209	**—**	—
Transfer for sale of Connecticut wireline operations	**(308)**	—	**—**	—
Other	**1**	—	**—**	—
Fair value of plan assets at end of year[3]	**45,163**	47,238	**7,846**	8,960
Unfunded status at end of year[2]	**$(14,380)**	$ (9,322)	**$(22,863)**	$(21,325)

[1] At our discretion, certain postretirement benefits may be paid from AT&T cash accounts, which does not reduce Voluntary Employee Benefit Association (VEBA) assets. Future benefit payments may be made from VEBA trusts and thus reduce those asset balances.
[2] Funded status is not indicative of our ability to pay ongoing pension benefits or of our obligation to fund retirement trusts. Required pension funding is determined in accordance with the Employee Retirement Income Security Act of 1974, as amended (ERISA) regulations.
[3] Net assets available for benefits were $54,184 at December 31, 2014 and $56,447 at December 31, 2013 and include the preferred equity interest in AT&T Mobility II LLC discussed below, which was valued at $9,021 and $9,209, respectively.

Dollars in millions except per share amounts

In July 2014, the U.S. Department of Labor (DOL) published in the Federal Register their final retroactive approval of our September 9, 2013 voluntary contribution of a preferred equity interest in AT&T Mobility II LLC, the primary holding company for our wireless business, to the trust used to pay pension benefits under our qualified pension plans. The preferred equity interest had a value of $9,104 on the contribution date and was valued at $9,021 at December 31, 2014. The trust is entitled to receive cumulative cash distributions of $560 per annum, which will be distributed quarterly in equal amounts and will be accounted for as contributions. We distributed $560 to the trust during 2014. So long as we make the distributions, we will have no limitations on our ability to declare a dividend, or repurchase shares. This preferred equity interest is a plan asset under ERISA and is recognized as such in the plan's separate financial statements. However, because the preferred equity interest is not unconditionally transferable to an unrelated party (see Note 14), it is not reflected in plan assets in our consolidated financial statements and instead has been eliminated in consolidation. At the time of the contribution of the preferred equity interest, we made an additional cash contribution of $175 and have agreed to annual cash contributions of $175 no later than the due date for our federal income tax return for each of 2014, 2015 and 2016. These contributions combined with our existing pension assets are in excess of 90% of the pension obligation at December 31, 2014.

As noted above, this preferred equity interest represents a plan asset of our pension trust, which is recognized in the separate financial statements of our pension plan as a qualified plan asset for funding purposes. The following table presents a reconciliation of our pension plan assets recognized in the consolidated financial statements of the Company with the net assets available for benefits included in the separate financial statements of the pension plan at December 31:

	2014	2013
Plan assets recognized in the consolidated financial statements	**$45,163**	$47,238
Preferred equity interest in Mobility	**9,021**	9,209
Net assets available for benefits	**$54,184**	$56,447

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

	Pension Benefits		Postretirement Benefits	
	2014	2013	**2014**	2013
Current portion of employee benefit obligation[1]	**$ —**	$ —	**$ (1,842)**	$ (1,949)
Employee benefit obligation[2]	**(14,380)**	(9,322)	**(21,021)**	(19,376)
Net amount recognized	**$(14,380)**	$(9,322)	**$(22,863)**	$(21,325)

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

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was $57,949 at December 31, 2014, and $55,077 at December 31, 2013.

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

Periodic Benefit Costs

Our combined net pension and postretirement (credit) cost recognized in our consolidated statements of income was $7,232, $(7,390) and $10,257 for the years ended December 31, 2014, 2013 and 2012. A portion of pension and postretirement benefit costs is capitalized as part of the benefit load on internal construction and capital expenditures, providing a small reduction in the net expense recorded. The following table presents the components of net periodic benefit cost:

	Pension Benefits			Postretirement Benefits		
	2014	2013	2012	**2014**	2013	2012
Service cost – benefits earned during the period	**$ 1,134**	$ 1,321	$ 1,216	**$ 233**	$ 352	$ 336
Interest cost on projected benefit obligation	**2,470**	2,429	2,800	**1,458**	1,532	1,725
Expected return on assets	**(3,380)**	(3,312)	(3,520)	**(653)**	(706)	(811)
Amortization of prior service credit	**(94)**	(94)	(15)	**(1,448)**	(1,161)	(927)
Actuarial (gain) loss	**5,419**	(5,013)	5,206	**2,093**	(2,738)	4,247
Net pension and postretirement (credit) cost	**$ 5,549**	$(4,669)	$ 5,687	**$ 1,683**	$(2,721)	$4,570

Other Changes in Benefit Obligations Recognized in Other Comprehensive Income

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

	Pension Benefits			Postretirement Benefits		
	2014	2013	2012	**2014**	2013	2012
Balance at beginning of year	**$583**	$641	$ 92	**$6,812**	$4,766	$3,655
Prior service (cost) credit	**45**	—	559	**383**	2,765	1,686
Amortization of prior service credit	**(58)**	(58)	(10)	**(898)**	(719)	(575)
Reclassification to income of prior service credit	**5**	—	—	**(40)**	—	—
Total recognized in other comprehensive (income) loss	**(8)**	(58)	549	**(555)**	2,046	1,111
Balance at end of year	**$575**	$583	$641	**$6,257**	$6,812	$4,766

The estimated prior service credits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year is $104 ($64 net of tax) for pension and $1,274 ($790 net of tax) for postretirement benefits.

Assumptions

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

	Pension Benefits			Postretirement Benefits		
	2014	2013	2012	**2014**	2013	2012
Weighted-average discount rate for determining projected benefit obligation at December 31	**4.30%**	5.00%	4.30%	**4.20%**	5.00%	4.30%
Discount rate in effect for determining net cost[1]	**4.60%**	4.30%	5.30%	**5.00%**	4.30%	5.30%
Long-term rate of return on plan assets	**7.75%**	7.75%	8.25%	**7.75%**	7.75%	8.25%
Composite rate of compensation increase for determining projected benefit obligation	**3.00%**	3.00%	3.00%	**3.00%**	3.00%	3.00%
Composite rate of compensation increase for determining net pension cost (benefit)	**3.00%**	3.00%	4.00%	**3.00%**	3.00%	4.00%

[1] Weighted-average discount rate of 5.00% in effect from January 1, 2014 through September 30, 2014. Discount rate of 3.50% in effect from October 1, 2014 through December 31, 2014.

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

Discount Rate Our assumed weighted-average discount rate for pension and postretirement benefits of 4.30% and 4.20% respectively, at December 31, 2014, reflects the hypothetical rate at which the projected benefit obligation could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and corresponding to the related expected durations of future cash outflows. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2014, when compared to the year ended December 31, 2013, we decreased our pension discount rate by 0.70%, resulting in an increase in our pension plan benefit obligation of $4,854 and decreased our postretirement discount rate 0.80%, resulting in an increase in our postretirement benefit obligation of $2,786. For the year ended December 31, 2013, we increased our pension and postretirement discount rates by 0.70%, resulting in a decrease in our pension plan benefit obligation of $4,533 and a decrease in our postretirement benefit obligation of $3,161.

Expected Long-Term Rate of Return Our expected long-term rate of return on pension plan assets is 7.75% for 2015 and 2014. Our expected long-term rate of return on postretirement plan assets was adjusted to 5.75% for 2015 from 7.75% for 2014 to reflect changes in the plan asset mix. Our long-term rates of return reflect the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In setting the long-term assumed rate of return, management considers capital markets future expectations and the asset mix of the plans' investments. Actual long-term return can, in relatively stable markets, also serve as a factor in determining future expectations. We consider many factors that include, but are not limited to, historical returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisers. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the expected long-term rate of return would cause 2015 combined pension and postretirement cost to increase $250. However, any differences in the rate and actual returns will be included with the actuarial gain or loss recorded in the fourth quarter when our plans are remeasured.

Dollars in millions except per share amounts

Composite Rate of Compensation Increase Our expected composite rate of compensation increase cost of 3.00% in 2015 and 2014 reflects the long-term average rate of salary increases.

Mortality Tables At December 31, 2014 we updated our assumed mortality rates to reflect our best estimate of future mortality, which increased our pension obligation by $1,442 and increased our postretirement obligations by $53. At December 31, 2013, we also updated our mortality rates, which increased our pension obligation by $1,986 and increased our postretirement obligations by $679.

Healthcare Cost Trend Our healthcare cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Due to historical experience, updated expectations of healthcare industry inflation and changes in physician prescribing patterns, we are lowering our 2015 assumed annual healthcare medical cost trend and ultimate trend rate to 4.50%. Our 2015 assumed annual healthcare prescription drug cost trend for non-Medicare eligible participants will increase to 6.0%, trending to our ultimate trend rate of 4.50% in 2021 and for Medicare-eligible participants will lower to an assumed annual and ultimate trend of 4.50%. This change in assumption decreased our obligation by $424. In 2014 our assumed annual healthcare cost trend rate was 5.00% and our ultimate trend rate was 5.00%. In addition to the healthcare cost trend in 2014, we assumed an annual 2.50% growth in administrative expenses and an annual 3.00% growth in dental claims.

A one percentage-point change in the assumed combined medical and dental cost trend rate would have the following effects:

	One Percentage-Point Increase	One Percentage-Point Decrease
Increase (decrease) in total of service and interest cost components	$ 79	$ (67)
Increase (decrease) in accumulated postretirement benefit obligation	796	(707)

Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets (real estate and natural resources). The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. As part of our voluntary contribution of the Mobility preferred equity interest, we will contribute $735 of cash distributions during 2015. We do not have additional significant required contributions to our pension plans for 2015.

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

The principal investment objectives are to ensure the availability of funds to pay pension and postretirement benefits as they become due under a broad range of future economic scenarios, to maximize long-term investment return with an acceptable level of risk based on our pension and postretirement obligations, and to be broadly diversified across and within the capital markets to insulate asset values against adverse experience in any one market. Each asset class has broadly diversified characteristics. Substantial biases toward any particular investing style or type of security are sought to be avoided by managing the aggregation of all accounts with portfolio benchmarks. Asset and benefit obligation forecasting studies are conducted periodically, generally every two to three years, or when significant changes have occurred in market conditions, benefits, participant demographics or funded status. Decisions regarding investment policy are made with an understanding of the effect of asset allocation on funded status, future contributions and projected expenses. The current asset allocation policy and risk level for the pension plan and VEBA assets is based on a study completed and approved during 2013 and is reflected in the table below.

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

	Pension Assets			Postretirement (VEBA) Assets		
	Target	**2014**	2013	Target	**2014**	2013
Equity securities:						
Domestic	21% – 31%	**23%**	25%	24% – 34%	**29%**	25%
International	10% – 20%	**14**	16	15% – 25%	**20**	20
Fixed income securities	34% – 44%	**38**	33	24% – 34%	**29**	24
Real assets	6% – 16%	**11**	11	0% – 6%	**1**	1
Private equity	4% – 14%	**12**	12	0% – 8%	**3**	4
Other	0% – 5%	**2**	3	12% – 22%	**18**	26
Total		**100%**	100%		**100%**	100%

At December 31, 2014, AT&T securities represented less than 0.5% of assets held by our pension plans and VEBA trusts included in these financial statements.

Investment Valuation

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See "Fair Value Measurements" for further discussion.

Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Shares of registered investment companies are valued based on quoted market prices, which represent the net asset value of shares held at year-end. Over-the-counter (OTC) securities and government obligations are valued at the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Depending on the types and contractual terms of OTC derivatives, fair value is measured using valuation techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models.

Common/collective trust funds, pooled separate accounts and other commingled (103-12) investment entities are valued at quoted redemption values that represent the net asset values of units held at year-end which management has determined approximates fair value.

Alternative investments, including investments in private equity, real estate, natural resources (included in real assets), mezzanine and distressed debt (included in partnerships/joint ventures), limited partnership interest, fixed income securities and hedge funds do not have readily available market values. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed, and such differences could be material. Alternative investments not having an established market are valued at fair value as determined by the investment managers. Private equity, mezzanine and distressed investments are often valued initially by the investment managers based upon cost. Thereafter, investment managers may use available market data to determine adjustments to carrying value based upon observations of the trading multiples of public companies considered comparable to the private companies being valued. Such market data used to determine adjustments to accounts for cash flows and company-specified issues include current operating performance and future expectations of the investments, changes in market outlook, and the third-party financing environment. Private equity partnership holdings may also include publicly held equity investments in liquid markets that are marked-to-market at quoted public values, subject to adjustments for large positions held. Real estate and natural resource direct investments are valued either at amounts based upon appraisal reports prepared by independent third-party appraisers or at amounts as determined by internal appraisals performed by the investment manager, which have been agreed to by an external valuation consultant. Fixed income securities valuation is based upon pricing provided by an external pricing service when such pricing is available. In the event a security is too thinly traded or narrowly held to be priced by such a pricing service, or the price furnished by such external pricing services is deemed inaccurate, the managers will then solicit broker/dealer quotes (spreads or prices). In cases where such quotes are available, fair value will be determined based solely upon such quotes provided. Managers will typically use a pricing matrix for determining fair value in cases where an approved pricing service or a broker/dealer is unable to provide a fair valuation for specific fixed-rate securities such as many private placements. New fixed-rate securities will be initially valued at cost at the time of purchase. Thereafter, each bond will be assigned a spread from a pricing matrix that will be added to current Treasury rates. The pricing matrix derives spreads for each bond based on external market data, including the current credit rating for the bonds, credit spreads to Treasuries for each credit rating, sector add-ons or credits, issue specific add-ons or credits as well as call or other options.

Dollars in millions except per share amounts

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

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

Fair Value Measurements

See Note 10 for a discussion of fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The following table sets forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2014:

Pension Assets and Liabilities at Fair Value as of December 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-interest bearing cash	$ 45	$ —	$ —	$ 45
Interest bearing cash	—	127	—	127
Foreign currency contracts	—	25	—	25
Equity securities:				
Domestic equities	8,613	74	—	8,687
International equities	4,805	171	—	4,976
Fixed income securities:				
Asset-backed securities	—	610	1	611
Mortgage-backed securities	—	1,741	—	1,741
Collateralized mortgage-backed securities	—	418	—	418
Collateralized mortgage obligations/REMICS	—	531	—	531
Corporate and other fixed income instruments and funds	97	7,210	441	7,748
Government and municipal bonds	145	4,876	—	5,021
Private equity funds	—	—	5,399	5,399
Real estate and real assets	—	—	4,845	4,845
Commingled funds	—	5,823	2	5,825
Securities lending collateral	310	3,140	—	3,450
Receivable for variation margin	6	—	—	6
Purchased options	1	—	—	1
Assets at fair value	14,022	24,746	10,688	49,456
Investments sold short and other liabilities at fair value	(650)	(260)	—	(910)
Total plan net assets at fair value	$13,372	$24,486	$10,688	$ 48,546
Other assets (liabilities)[1]				(3,383)
Total Plan Net Assets				**$45,163**

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

Postretirement Assets and Liabilities at Fair Value as of December 31, 2014	Level 1	Level 2	Level 3	Total
Interest bearing cash	$ 278	$1,198	$ —	$ 1,476
Equity securities:				
Domestic equities	1,606	—	—	1,606
International equities	1,405	—	—	1,405
Fixed income securities:				
Asset-backed securities	—	46	—	46
Collateralized mortgage-backed securities	—	113	—	113
Collateralized mortgage obligations	—	50	1	51
Corporate and other fixed income instruments and funds	—	397	—	397
Government and municipal bonds	—	614	1	615
Commingled funds	—	1,960	1	1,961
Private equity assets	—	—	218	218
Real assets	—	—	96	96
Securities lending collateral	—	173	—	173
Total plan net assets at fair value	$3,289	$4,551	$317	$ 8,157
Other assets (liabilities)[1]				(311)
Total Plan Net Assets				**$7,846**

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

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2014:

Pension Assets	Equities	Fixed Income Funds	Private Equity Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ —	$ 547	$ 5,724	$ 5,194	$ 11,465
Realized gains (losses)	—	41	696	806	1,543
Unrealized gains (losses)	—	(1)	(76)	(246)	(323)
Transfers in	—	—	—	22	22
Transfers out	—	(3)	(22)	—	(25)
Purchases	1	55	531	678	1,265
Sales	(1)	(195)	(1,454)	(1,609)	(3,259)
Balance at end of year	**$ —**	**$ 444**	**$5,399**	**$4,845**	**$10,688**

Postretirement Assets	Fixed Income Funds	Private Equity Funds	Real Assets	Total
Balance at beginning of year	$ 26	$ 309	$ 111	$ 446
Realized gains (losses)	—	45	(3)	42
Unrealized gains (losses)	1	(29)	11	(17)
Transfers out	(1)	—	—	(1)
Purchases	—	6	—	6
Sales	(23)	(113)	(23)	(159)
Balance at end of year	**$ 3**	**$ 218**	**$ 96**	**$ 317**

Dollars in millions except per share amounts

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2013:

Pension Assets and Liabilities at Fair Value as of December 31, 2013	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 65	$ —	$ —	$ 65
Interest bearing cash	—	324	—	324
Foreign currency contracts	—	3	—	3
Equity securities:				
Domestic equities	9,841	3	—	9,844
International equities	6,431	7	—	6,438
Fixed income securities:				
Asset-backed securities	—	553	3	556
Mortgage-backed securities	—	2,470	—	2,470
Collateralized mortgage-backed securities	—	364	—	364
Collateralized mortgage obligations/REMICS	—	514	—	514
Corporate and other fixed income instruments and funds	154	5,147	540	5,841
Government and municipal bonds	15	4,566	—	4,581
Private equity funds	—	—	5,724	5,724
Real estate and real assets	—	—	5,194	5,194
Commingled funds	—	6,358	4	6,362
Securities lending collateral	390	3,074	—	3,464
Receivable for variation margin	12	—	—	12
Assets at fair value	16,908	23,383	11,465	51,756
Investments sold short and other liabilities at fair value	(619)	(5)	—	(624)
Total plan net assets at fair value	$16,289	$23,378	$11,465	$51,132
Other assets (liabilities)[1]				(3,894)
Total Plan Net Assets				$47,238

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

Postretirement Assets and Liabilities at Fair Value as of December 31, 2013	Level 1	Level 2	Level 3	Total
Interest bearing cash	$ 405	$ 2,073	$ —	$ 2,478
Equity securities:				
Domestic equities	1,609	—	—	1,609
International equities	1,527	—	—	1,527
Fixed income securities:				
Asset-backed securities	—	35	2	37
Collateralized mortgage-backed securities	—	110	—	110
Collateralized mortgage obligations	—	53	3	56
Corporate and other fixed income instruments and funds	—	367	18	385
Government and municipal bonds	—	558	1	559
Commingled funds	—	1,899	2	1,901
Private equity assets	—	—	309	309
Real assets	—	—	111	111
Securities lending collateral	19	372	—	391
Foreign exchange contracts receivable	3	—	—	3
Assets at fair value	3,563	5,467	446	9,476
Foreign exchange contracts payable	3	—	—	3
Liabilities at fair value	3	—	—	3
Total plan net assets at fair value	$ 3,560	$ 5,467	$ 446	$ 9,473
Other assets (liabilities)[1]				(513)
Total Plan Net Assets				$ 8,960

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

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2013:

Pension Assets	Equities	Fixed Income Funds	Private Equity Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ —	$1,042	$ 5,797	$4,766	$11,605
Realized gains (losses)	(3)	53	390	122	562
Unrealized gains (losses)	3	(8)	546	525	1,066
Transfers in	—	5	—	—	5
Transfers out	—	(442)	—	—	(442)
Purchases	—	75	1,214	354	1,643
Sales	—	(178)	(2,223)	(573)	(2,974)
Balance at end of year	$ —	$ 547	$ 5,724	$5,194	$11,465

Postretirement Assets	Fixed Income Funds	Private Equity Funds	Real Assets	Total
Balance at beginning of year	$ 21	$ 343	$ 110	$ 474
Realized gains (losses)	—	2	12	14
Unrealized gains (losses)	1	58	4	63
Transfers in	1	—	—	1
Transfers out	(1)	—	—	(1)
Purchases	5	89	27	121
Sales	(1)	(183)	(42)	(226)
Balance at end of year	$ 26	$ 309	$ 111	$ 446

Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2014. Because benefit payments will depend on future employment and compensation levels, average years employed, average life spans, and payment elections, among other factors, changes in any of these factors could significantly affect these expected amounts. The following table provides expected benefit payments under our pension and postretirement plans:

	Pension Benefits	Postretirement Benefits
2015	$ 5,741	$2,134
2016	4,184	2,063
2017	4,144	2,000
2018	4,066	1,962
2019	4,010	1,952
Years 2020 – 2024	19,753	9,324

Supplemental Retirement Plans

We also provide certain senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. While these plans are unfunded, we have assets in a designated nonbankruptcy remote trust that are independently managed and used to provide for these benefits. These plans include supplemental pension benefits as well as compensation-deferral plans, some of which include a corresponding match by us based on a percentage of the compensation deferral.

We use the same significant assumptions for the composite rate of compensation increase in determining our projected benefit obligation and the net pension and postemployment benefit cost. Our discount rates of 4.1% at December 31, 2014 and 5.0% at December 31, 2013 were calculated using the same methodologies used in calculating the discount rate for our qualified pension and postretirement benefit plans. The following tables provide the plans' benefit obligations and fair value of assets at December 31 and the components of the supplemental retirement pension benefit cost. The net amounts are recorded as "Other noncurrent liabilities" on our consolidated balance sheets.

The following table provides information for our supplemental retirement plans with accumulated benefit obligations in excess of plan assets at December 31:

	2014	2013
Projected benefit obligation	**$(2,458)**	$(2,280)
Accumulated benefit obligation	**(2,410)**	(2,227)
Fair value of plan assets	**—**	—

The following tables present the components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in OCI:

Net Periodic Benefit Cost	2014	2013	2012
Service cost – benefits earned during the period	**$ 7**	$ 9	$ 10
Interest cost on projected benefit obligation	**109**	101	116
Amortization of prior service cost (credit)	**(1)**	—	—
Actuarial (gain) loss	**243**	(106)	230
Net supplemental retirement pension cost	**$358**	$ 4	$356

Other Changes Recognized in Other Comprehensive Income	2014	2013	2012
Prior service (cost) credit	**$ (11)**	$ (1)	$ (1)
Amortization of prior service cost (credit)	**(1)**	—	—
Total recognized in other comprehensive (income) loss (net of tax)	**$ (12)**	$ (1)	$ (1)

The estimated prior service cost for our supplemental retirement plan benefits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year is $1.

Deferred compensation expense was $121 in 2014, $122 in 2013 and $118 in 2012. Our deferred compensation liability, included in "Other noncurrent liabilities," was $1,156 at December 31, 2014, and $1,118 at December 31, 2013.

Contributory Savings Plans

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

Our match of employee contributions to the savings plans is fulfilled with purchases of our stock on the open market or company cash. Benefit cost is based on the cost of shares or units allocated to participating employees' accounts and was $654, $654 and $634 for the years ended December 31, 2014, 2013 and 2012.

NOTE 13. SHARE-BASED PAYMENTS

Under our various plans, senior and other management employees and nonemployee directors have received nonvested stock and stock units. We grant performance stock units, which are nonvested stock units, based upon our stock price at the date of grant and award them in the form of AT&T common stock and cash at the end of a three-year period, subject to the achievement of certain performance goals. We treat the cash portion of these awards as a liability. We grant forfeitable restricted stock and stock units, which are valued at the market price of our common stock at the date of grant and vest typically over a two- to seven-year period. We also grant other nonvested stock units and award them in cash at the end of a three-year period, subject to the achievement of certain market based conditions. As of December 31, 2014, we were authorized to issue up to approximately 117 million shares of common stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested stock units) to officers, employees and directors pursuant to these various plans.

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

The compensation cost recognized for those plans was included in operating expenses in our consolidated statements of income, as reflected in the table below. The total income tax benefit recognized in the consolidated statements of income for share-based payment arrangements was $122 for 2014, compared to $175 for 2013 and $195 for 2012.

	2014	2013	2012
Performance stock units	**$226**	$381	$397
Restricted stock and stock units	**93**	80	102
Other nonvested stock units	**(1)**	(3)	12
Total	**$318**	$458	$511

A summary of the status of our nonvested stock units as of December 31, 2014, and changes during the year then ended is presented as follows (shares in millions):

Nonvested Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2014	24	$ 31.93
Granted	14	33.39
Vested	(11)	29.91
Forfeited	(1)	32.60
Nonvested at December 31, 2014	**26**	**$33.52**

As of December 31, 2014, there was $425 of total unrecognized compensation cost related to nonvested share-based payment arrangements granted. That cost is expected to be recognized over a weighted-average period of 2.27 years. The total fair value of shares vested during the year was $327 for 2014, compared to $336 for 2013 and $333 for 2012.

It is our policy to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was $43 for 2014, $135 for 2013 and $517 for 2012.

NOTE 14. STOCKHOLDERS' EQUITY

Stock Repurchase Program From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. In December 2010, our Board of Directors authorized the repurchase of 300 million shares of our common stock. We began buying back stock under this program in 2012 and completed the purchase of authorized shares that year. In July 2012, our Board of Directors approved a second authorization to repurchase 300 million shares and we completed that program in May 2013. In March 2013, our Board of Directors approved a third authorization to repurchase 300 million shares, under which we repurchased shares during 2014. In March 2014, our Board of Directors approved a fourth authorization to repurchase up to 300 million shares of our common stock. For the year ended December 31, 2014, we had repurchased approximately 48 million shares totaling $1,617 under these authorizations. For the year ended December 31, 2013, we had repurchased approximately 366 million shares totaling $13,028 under these authorizations. Upon completing our acquisition of DIRECTV, our priority will be to use free cash flow (operating cash flows less construction and capital expenditures) after dividends to pay down debt.

To implement these authorizations, we use open market repurchase programs, relying on Rule 10b5-1 of the Securities Exchange Act of 1934 where feasible. We also use accelerated share repurchase programs with large financial institutions to repurchase our stock.

Authorized Shares There are 14 billion authorized common shares of AT&T stock and 10 million authorized preferred shares of AT&T stock. As of December 31, 2014 and 2013, no preferred shares were outstanding.

Dividend Declarations In December 2014, the Company declared an increase in its quarterly dividend to $0.47 per share of common stock. In December 2013, the Company declared a quarterly dividend of $0.46 per share of common stock, which reflected an increase from the $0.45 quarterly dividend declared in November 2012.

Preferred Equity Interest The preferred equity interest discussed in Note 12 is not transferable by the trust except through its put and call features, and therefore has been eliminated in consolidation. After a period of five years from the contribution or, if earlier, the date upon which the pension plan trust is fully funded as determined under GAAP, AT&T has a right to purchase from the pension plan trust some or all of the preferred equity interest at the greater of their fair market value or minimum liquidation value plus any unpaid cumulative dividends. In addition, AT&T will have the right to purchase the preferred equity interest in the event AT&T's ownership of Mobility is less than 50% or there is a transaction that results in the transfer of 50% or more of the pension plan trust's assets to an entity not under common control with AT&T (collectively, a change of control). The pension plan trust has the right to require AT&T to purchase the preferred equity interest at the greater of their fair market value or minimum liquidation value plus any unpaid cumulative dividends, and in installments, as specified in the contribution agreement upon the occurrence of any of the following: (1) at any time if the ratio of debt to total capitalization of Mobility exceeds that of AT&T, (2) the date on which AT&T Inc. is rated below investment grade for two consecutive calendar quarters, (3) upon a change of control if AT&T does not exercise its purchase option, or (4) at any time after a seven-year period from the contribution date. In the event AT&T elects or is required to purchase the preferred equity interest, AT&T may elect to settle the purchase price in cash or shares of AT&T common stock or a combination thereof. Because the preferred equity interest was not considered outstanding for accounting purposes at year-end, it did not affect the calculation of earnings per share.

NOTE 15. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Consolidated Balance Sheets	**2014**	2013
Accounts payable and accrued liabilities:		
Accounts payable	**$14,984**	$11,561
Accrued payroll and commissions	**1,967**	1,985
Current portion of employee benefit obligation	**1,842**	1,949
Accrued interest	**1,597**	1,559
Other	**3,202**	4,053
Total accounts payable and accrued liabilities	**$23,592**	$21,107

Consolidated Statements of Income	**2014**	2013	2012
Advertising expense	**$3,272**	$3,268	$2,910
Interest expense incurred	**$3,847**	$4,224	$3,707
Capitalized interest	**(234)**	(284)	(263)
Total interest expense	**$3,613**	$3,940	$3,444

Consolidated Statements of Cash Flows	**2014**	2013	2012
Cash paid during the year for:			
Interest	**$4,099**	$4,302	$3,714
Income taxes, net of refunds	**1,532**	1,985	458

Dollars in millions except per share amounts

No customer accounted for more than 10% of consolidated revenues in 2014, 2013 or 2012.

Labor Contracts As of January 31, 2015, we employed approximately 253,000 persons. Approximately 53 percent of our employees are represented by the Communications Workers of America, the International Brotherhood of Electrical Workers or other unions. Contracts covering approximately 41,000 non-Mobility employees will expire during 2015, including approximately 12,000 traditional wireline employees in our five-state Midwest region and 24,000 in our nine-state Southeast region. After expiration of the current agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached.

NOTE 16. SALES OF EQUIPMENT INSTALLMENT RECEIVABLES

We offer our customers the option to purchase certain wireless devices in installments over a period of up to 30 months, with the right to trade in the original equipment for a new device within a set period and have the remaining unpaid balance satisfied. As of December 31, 2014 and 2013, gross equipment installment receivables of $4,265 and $921 were included on our consolidated balance sheets, of which $2,514 and $606 are notes receivable that are included in "Accounts receivable, net."

On June 27, 2014, we entered into uncommitted agreements pertaining to the sale of equipment installment receivables and related security with Citibank, N.A. and various other relationship banks as purchasers (collectively, the Purchasers) with a funding amount not expected to exceed $2,000 at any given time. Under the agreement, we may transfer the receivables to the Purchasers for cash and additional consideration upon settlement of the receivables. Under the terms of the arrangement, we continue to bill and collect on behalf of our customers for the receivables sold.

The following table sets forth a summary of equipment installment receivables sold during 2014:

	2014
Net receivables sold[1]	$4,126
Cash proceeds received	2,528
Deferred purchase price recorded	1,629

[1] Gross receivables sold were $4,707, before deducting the allowance, imputed interest and trade-in right guarantees.

The deferred purchase price was initially recorded at estimated fair value, which was based on remaining installment payments expected to be collected, adjusted by the expected timing and value of device trade-ins, and is subsequently carried at the lower of cost or net realizable value. The estimated value of the device trade-ins considers prices offered to us by independent third parties that contemplate changes in value after the launch of a device model. The fair value measurements used are considered Level 3 under the Fair Value Measurement and Disclosure framework (see Note 10).

At December 31, 2014, our deferred purchase price receivable was $1,606, which is included in "Other Assets" on our consolidated balance sheets. Our maximum exposure to loss as a result of selling these equipment installment receivables is limited to the amount of our deferred purchase price at any point in time.

The sales of equipment installment receivables did not have a material impact in our consolidated statements of income or to "Total Assets" reported on our consolidated balance sheets. We reflect the cash flows related to the arrangement as operating activities in our consolidated statements of cash flows because the cash received from the Purchasers upon both the sale of the receivables and the collection of the deferred purchase price is not subject to significant interest rate risk.

NOTE 17. TOWER TRANSACTION

On December 16, 2013, we closed our transaction with Crown Castle International Corp. (Crown Castle) in which Crown Castle gained the exclusive rights to lease and operate 9,048 wireless towers and purchased 627 of our wireless towers for $4,827 in cash. The leases have various terms with an average length of approximately 28 years. As the leases expire, Crown Castle will have fixed price purchase options for these towers totaling approximately $4,200, based on their estimated fair market values at the end of the lease terms. We sublease space on the towers from Crown Castle for an initial term of 10 years at current market rates, subject to optional renewals in the future.

We determined our continuing involvement with the tower assets prevented us from achieving sale-leaseback accounting for the transaction, and we accounted for the cash proceeds from Crown Castle as a financing obligation on our consolidated balance sheets. We record interest on the financing obligation using the effective interest method at a rate of approximately 3.90%. The financing obligation is increased by interest expense and estimated future net cash flows generated and retained by Crown Castle from operation of the tower sites, and reduced by our contractual payments. We continue to include the tower assets in Property, plant and equipment in our consolidated balance sheets and depreciate them accordingly. At December 31, 2014 and 2013, the tower assets had a balance of $999 and $1,039, respectively. Our depreciation expense for these assets was $39 for 2014. The impact of the transaction on our operating results for the year ended December 31, 2013, was not material.

Lease payments under the sublease arrangements were $221 for 2014. At December 31, 2014, the future minimum payments under the sublease arrangement are $225 for 2015, $229 for 2016, $234 for 2017, $239 for 2018, $244 for 2019, and $2,553 thereafter.

NOTE 18. CONTINGENT LIABILITIES

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

We have contractual obligations to purchase certain goods or services from various other parties. Our purchase obligations are expected to be approximately $19,129 in 2015, $21,386 in total for 2016 and 2017, $2,518 in total for 2018 and 2019 and $691 in total for years thereafter.

See Note 10 for a discussion of collateral and credit-risk contingencies.

NOTE 19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables represent our quarterly financial results:

	2014 Calendar Quarter				
	First	**Second**	**Third**	**Fourth**[2]	**Annual**
Total Operating Revenues	$32,476	$32,575	$32,957	$34,439	$132,447
Operating Income (Loss)	6,278	5,616	5,402	(5,550)	11,746
Net Income (Loss)	3,734	3,621	3,059	(3,896)	6,518
Net Income (Loss) Attributable to AT&T	3,652	3,547	3,002	(3,977)	6,224
Basic Earnings (Loss) Per Share Attributable to AT&T[1]	$ 0.70	$ 0.68	$ 0.58	$ (0.77)	$ 1.19
Diluted Earnings (Loss) Per Share Attributable to AT&T[1]	$ 0.70	$ 0.68	$ 0.58	$ (0.77)	$ 1.19
Stock Price					
High	$ 35.50	$ 36.86	$ 37.48	$ 36.16	
Low	31.74	34.32	34.17	32.07	
Close	35.07	35.36	35.24	33.59	

[1] Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.
[2] Includes an actuarial loss on pension and postretirement benefit plans (Note 12) and asset abandonment charges (Note 6).

	2013 Calendar Quarter				
	First	Second	Third	Fourth[2]	Annual
Total Operating Revenues	$31,356	$32,075	$32,158	$33,163	$128,752
Operating Income	5,940	6,113	6,188	12,238	30,479
Net Income	3,773	3,880	3,905	6,995	18,553
Net Income Attributable to AT&T	3,700	3,822	3,814	6,913	18,249
Basic Earnings Per Share Attributable to AT&T[1]	$ 0.67	$ 0.71	$ 0.72	$ 1.31	$ 3.39
Diluted Earnings Per Share Attributable to AT&T[1]	$ 0.67	$ 0.71	$ 0.72	$ 1.31	$ 3.39
Stock Price					
High	$ 36.87	$ 39.00	$ 36.31	$ 36.80	
Low	32.76	34.10	33.19	33.09	
Close	36.69	35.40	33.82	35.16	

[1] Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.
[2] Includes an actuarial gain on pension and postretirement benefit plans (Note 12), special termination charges (Note 12) and charges for employee separations.

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

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

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

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

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

Assessment of Internal Control

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

AT&T management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013 framework). Based on its assessment, AT&T management believes that, as of December 31, 2014, the Company's internal control over financial reporting is effective based on those criteria.

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

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

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

The Board of Directors and Stockholders of AT&T Inc.

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2015 expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas
February 20, 2015

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Stockholders of AT&T Inc.

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated February 20, 2015 expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas
February 20, 2015

Randall L. Stephenson, 54 [4]

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

Joyce M. Roché, 67 [3,4,5]

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

Reuben V. Anderson*, 72 [3,4,6]

Senior Partner
Phelps Dunbar LLP
Director since 2006
BellSouth Corporation
Director 1994–2006
Background: Law

Jaime Chico Pardo*, 65 [1]

Founder and Chief Executive Officer
ENESA
Director since 2008
Background: Telecommunications,
banking

Scott T. Ford, 52 [2,4,5]

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

Glenn H. Hutchins, 59 [2]

Co-Founder
Silver Lake
Director since June 2014
Background: Technology,
public policy

James P. Kelly*, 71 [1,3]

Retired Chairman of the Board
and Chief Executive Officer
United Parcel Service, Inc.
Director since 2006
BellSouth Corporation Director 2000–2006
Background: Air delivery and freight services

William E. Kennard, 58 [6]

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

Jon C. Madonna, 71 [1,3,4]

Retired Chairman and
Chief Executive Officer
KPMG
Director since 2005
AT&T Corp. Director 2002–2005
Background: Public accounting

Michael B. McCallister, 62 [1,6]

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

John B. McCoy, 71 [3,4,5]

Retired Chairman and
Chief Executive Officer
Bank One Corporation
Director since 1999
Ameritech Director 1991–1999
Background: Banking

Beth E. Mooney, 60 [2,6]

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

Matthew K. Rose, 55 [3,5]

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

Cynthia B. Taylor, 53 [1,2]

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

Laura D'Andrea Tyson, Ph.D., 67 [1,6]

Professor of Business Administration
and Economics
Haas School of Business
University of California at Berkeley
Director since 1999
Ameritech Director 1997–1999
Background: Economics, education

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

(Information is provided
as of March 10, 2015.)

*Retiring April 24, 2015

Executive Officers of AT&T Inc. and Its Affiliates

Randall Stephenson, 54
Chairman, Chief Executive Officer
and President

Cathy Coughlin, 57
Senior Executive Vice President
and Global Marketing Officer

David Huntley, 56
Chief Compliance Officer

John Stephens, 55
Senior Executive Vice President
and Chief Financial Officer

Bill Blase Jr., 59
Senior Executive Vice President-
Human Resources

Ralph de la Vega, 63
President and Chief Executive Officer,
AT&T Mobile and Business Solutions

Lori Lee, 49
Senior Executive Vice President-
Home Solutions

Wayne Watts, 61
Senior Executive Vice President
and General Counsel

Jim Cicconi, 62
Senior Executive Vice President-
External and Legislative Affairs,
AT&T Services, Inc.

John Donovan, 54
Senior Executive Vice President-
AT&T Technology and Operations

John Stankey, 52
Group President and
Chief Strategy Officer

(Information is provided
as of February 20, 2015.)