AT&T INC. FINANCIAL REVIEW 2015

Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 and for the year ended:	**2015**	2014[1]	2013[1]	2012[1]	2011[1]
		As Adjusted			
Financial Data					
Operating revenues	**$146,801**	$132,447	$128,752	$127,434	$126,723
Operating expenses	**$122,016**	$120,235	$ 98,000	$114,380	$117,223
Operating income	**$ 24,785**	$ 12,212	$ 30,752	$ 13,054	$ 9,500
Interest expense	**$ 4,120**	$ 3,613	$ 3,940	$ 3,444	$ 3,535
Equity in net income of affiliates	**$ 79**	$ 175	$ 642	$ 752	$ 784
Other income (expense) – net	**$ (52)**	$ 1,581	$ 596	$ 134	$ 249
Income tax expense	**$ 7,005**	$ 3,619	$ 9,328	$ 2,922	$ 2,639
Net Income	**$ 13,687**	$ 6,736	$ 18,722	$ 7,574	$ 4,359
Less: Net Income Attributable to Noncontrolling Interest	**$ (342)**	$ (294)	$ (304)	$ (275)	$ (240)
Net Income Attributable to AT&T	**$ 13,345**	$ 6,442	$ 18,418	$ 7,299	$ 4,119
Earnings Per Common Share: Net Income Attributable to AT&T	**$ 2.37**	$ 1.24	$ 3.42	$ 1.26	$ 0.69
Earnings Per Common Share – Assuming Dilution: Net Income Attributable to AT&T	**$ 2.37**	$ 1.24	$ 3.42	$ 1.26	$ 0.69
Total assets	**$402,672**	$296,834	$281,423	$275,834	$273,467
Long-term debt	**$118,515**	$ 75,778	$ 69,091	$ 66,152	$ 61,091
Total debt	**$126,151**	$ 81,834	$ 74,589	$ 69,638	$ 64,544
Construction and capital expenditures	**$ 20,015**	$ 21,433	$ 21,228	$ 19,728	$ 20,272
Dividends declared per common share	**$ 1.89**	$ 1.85	$ 1.81	$ 1.77	$ 1.73
Book value per common share	**$ 20.12**	$ 17.40	$ 18.10	$ 17.14	$ 18.34
Ratio of earnings to fixed charges	**4.01**	2.91	6.03	2.97	2.29
Debt ratio	**50.5%**	47.5%	44.1%	42.1%	37.3%
Weighted-average common shares outstanding (000,000)	**5,628**	5,205	5,368	5,801	5,928
Weighted-average common shares outstanding with dilution (000,000)	**5,646**	5,221	5,385	5,821	5,950
End of period common shares outstanding (000,000)	**6,145**	5,187	5,226	5,581	5,927
Operating Data					
Total wireless customers (000)	**137,324**	120,554	110,376	106,957	103,247
Video connections (000)	**37,934**	5,943	5,460	4,536	3,791
In-region network access lines in service (000)	**16,670**	19,896	24,639	29,279	34,054
Broadband connections (000)	**15,778**	16,028	16,425	16,390	16,427
Number of employees	**281,450**	243,620	243,360	241,810	256,420

[1] Financial data for 2011-2014 has been adjusted to reflect our change in accounting for customer fulfillment costs and the early adoption of ASU 2015-03 and ASU 2015-17. See Note 1 to our consolidated financial statements.

Dollars in millions except per share amounts

RESULTS OF OPERATIONS

For ease of reading, AT&T Inc. is referred to as "we," "AT&T" or the "Company" throughout this document, and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate in the communications and digital entertainment services industry. Our subsidiaries and affiliates provide services and equipment that deliver voice, video and broadband services both domestically and internationally. During 2015, we completed our acquisitions of DIRECTV and wireless properties in Mexico and have included the results of those operations for the period from acquisition through December 31, 2015. In accordance with U.S. generally accepted accounting principles (GAAP), operating results from DIRECTV prior to the acquisition are excluded. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes. A reference to a "Note" in this section refers to the accompanying Notes to Consolidated Financial Statements. In the tables throughout this section, percentage increases and decreases that are not considered meaningful are denoted with a dash. Certain amounts have been reclassified to conform to the current period's presentation, including our change in accounting for customer fulfillment costs (see Note 1).

Consolidated Results Our financial results are summarized in the table below. We then discuss factors affecting our overall results for the past three years. These factors are discussed in more detail in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2016 in the "Operating Environment and Trends of the Business" section.

				Percent Change	
	2015	2014	2013	**2015 vs. 2014**	2014 vs. 2013
Operating Revenues					
Service	**$131,677**	$118,437	$119,252	**11.2%**	(0.7)%
Equipment	**15,124**	14,010	9,500	**8.0**	47.5
Total Operating Revenues	**146,801**	132,447	128,752	**10.8**	2.9
Operating expenses					
Cost of services and sales					
Equipment	**19,268**	18,946	16,644	**1.7**	13.8
Broadcast, programming and operations	**11,996**	4,075	3,308	**—**	23.2
Other cost of services	**35,782**	37,124	31,239	**(3.6)**	18.8
Selling, general and administrative	**32,954**	39,697	28,414	**(17.0)**	39.7
Abandonment of network assets	**—**	2,120	—	**—**	—
Depreciation and amortization	**22,016**	18,273	18,395	**20.5**	(0.7)
Total Operating Expenses	**122,016**	120,235	98,000	**1.5**	22.7
Operating Income	**24,785**	12,212	30,752	**—**	(60.3)
Interest expense	**4,120**	3,613	3,940	**14.0**	(8.3)
Equity in net income of affiliates	**79**	175	642	**(54.9)**	(72.7)
Other income (expense) – net	**(52)**	1,581	596	**—**	—
Income Before Income Taxes	**20,692**	10,355	28,050	**99.8**	(63.1)
Net Income	**13,687**	6,736	18,722	**—**	(64.0)
Net Income Attributable to AT&T	**$ 13,345**	$ 6,442	$ 18,418	**—**	(65.0)%

OVERVIEW

Operating revenues increased $14,354, or 10.8% in 2015 and increased $3,695, or 2.9% in 2014.

Service revenues increased $13,240, or 11.2%, in 2015 and decreased $815, or 0.7%, in 2014. The increase in 2015 was primarily due to our acquisition of DIRECTV, our new wireless operations in Mexico, and gains in fixed strategic business services and AT&T U-verse® (U-verse) services. The decrease in 2014 was primarily due to customers choosing to purchase devices through installment payment agreements which entitles them to a lower service rate in our wireless Mobile Share plans, continued declines in our legacy wireline voice and data products and the October 2014 sale of our Connecticut operations, partially offset by strong revenues from U-verse, fixed strategic business services and revenues from the March 2014 acquisition of Leap Wireless International, Inc. (Leap).

Equipment revenues increased $1,114, or 8.0%, in 2015 and $4,510, or 47.5%, in 2014. The increases in 2015 and 2014 were due to the continuing trend by our postpaid wireless subscribers to purchase devices on installment payment agreements rather than the device subsidy model, which resulted in increased equipment revenue recognized for device sales.

Operating expenses increased $1,781, or 1.5%, in 2015 and $22,235, or 22.7%, in 2014.

Equipment expenses increased $322, or 1.7%, in 2015 and $2,302, or 13.8%, in 2014. Expense increases in 2015 and 2014 are primarily due to the continuing trend of customers choosing higher-priced wireless devices. The expense increase in 2014 also reflects higher upgrade equipment sales.

Broadcast, programming and operations expenses increased $7,921 in 2015 and $767, or 23.2%, in 2014. Broadcast costs increased in 2015 due to our acquisition of DIRECTV. Also contributing to the increases in 2015 and 2014 were higher content costs for our U-verse subscribers.

Other cost of services expenses decreased $1,342, or 3.6%, in 2015 and increased $5,885, or 18.8%, in 2014. The expense decrease in 2015 was primarily due to a $3,078 change in our annual pension and postemployment benefit actuarial adjustment, which was a gain in 2015 and a loss in 2014. Also contributing to the 2015 decrease were higher High Cost Fund and Connect America Fund receipts from the Universal Service Fund and the fourth quarter 2014 sale of our Connecticut wireline operations, offset by the addition of DIRECTV, increased network rationalization charges related to Leap, merger and integration charges and wireless handset insurance costs.

The expense increase in 2014 included a $4,406 change resulting from the annual remeasurement of our benefit plans, which was an actuarial loss in 2014 and a gain in 2013. The increase also reflected higher wireless network costs, U-verse content costs and subscriber growth, and employee-related charges.

Selling, general and administrative expenses decreased $6,743, or 17.0%, in 2015 and increased $11,283, or 39.7%, in 2014. 2015 expenses decreased $6,943 as a result of recording an actuarial gain in 2015 and an actuarial loss in 2014. The 2015 decrease was also due to lower employee-related charges resulting from workforce reductions, lower wireless commissions and the fourth-quarter 2014 sale of our Connecticut wireline operations, offset by costs resulting from the acquisition of DIRECTV.

The expense increase in 2014 included an $11,047 change resulting from the annual remeasurement of our benefit plans, which was an actuarial loss in 2014 and a gain in 2013. Expense increases in 2014 also reflect higher selling and administrative expenses in our wireless business and gains on spectrum transactions in 2013. These increases were partially offset by lower employee-related costs and wireless commissions expenses.

Abandonment of network assets In 2014, we recorded a noncash charge of $2,120 for the abandonment in place of certain network assets (see Note 6). During the fourth quarter of 2014, we completed a study of our network assets and determined that specific copper assets would not be necessary to support future network activity, due to declining customer demand for our legacy voice and data products and the transition of our networks to next generation IP-based technology.

Depreciation and amortization expense increased $3,743, or 20.5%, in 2015 and decreased $122, or 0.7%, in 2014. The 2015 amortization expense increased $2,198 due to the amortization of intangibles from recent acquisitions. The 2014 amortization expense decreased $145 due to lower amortization of intangibles for customer lists.

Depreciation expense increased $1,545, or 8.7%, in 2015. The increase was primarily due to the acquisitions of DIRECTV and our wireless properties in Mexico and ongoing capital spending for network upgrades. The increases were partially offset by the abandonment of certain wireline network assets, which occurred in 2014, and certain network assets becoming fully depreciated. The 2014 depreciation expense increased $23 due to ongoing capital spending for network upgrades and expansion and additional expense associated with the assets acquired from Leap. These increases were largely offset by extending the estimated useful life of software and certain network assets becoming fully depreciated assets.

Operating income increased $12,573 in 2015 and decreased $18,540, or 60.3% in 2014. Our operating margin was 16.9% in 2015, compared to 9.2% in 2014 and 23.9% in 2013. Contributing $10,021 to the increase in operating income in 2015 was a noncash actuarial gain of $2,152 and an actuarial loss of $7,869 in 2014. The increase in operating income for 2015 also included higher acquisition-related charges and expenses relating to growth areas of our business in 2015. Contributing $15,453 to the decrease in operating income in 2014 was a noncash actuarial loss of $7,869 related to pension and postemployment benefit plans, and an actuarial gain of $7,584 in 2013. Operating income for 2014 also included a noncash charge of $2,120 related to an abandonment of network assets, higher wireless equipment costs resulting from higher device sales and customers choosing higher-priced devices, increased expenses supporting U-verse subscriber growth, and continued declines in our traditional voice and data services.

Interest expense increased $507, or 14.0%, in 2015 and decreased $327, or 8.3%, in 2014. The increase in 2015 was primarily due to higher average debt balances, including debt issued and debt acquired in connection with our acquisition of DIRECTV and spectrum acquired in the Advanced Wireless Service (AWS)-3 Auction. These increases were partially offset by lower average interest rates and an increase in capitalized interest resulting from spectrum acquired in the AWS-3 Auction (see Note 5).

The decrease in 2014 was primarily due to a $581 charge related to debt tender offers in 2013 and lower interest rates resulting from refinancing activity, partially offset by interest expense related to our December 2013 tower transaction (see Note 16), higher debt balances and charges associated with the early redemption of debt during 2014.

Equity in net income of affiliates decreased $96, or 54.9%, in 2015 and $467, or 72.7%, in 2014. The decrease in 2015 primarily resulted from the sale of our investment in América Móvil, S.A. de C.V. (América Móvil) in June 2014 (see Note 5), combined with lower earnings from YP Holdings LLC (YP Holdings) and increased expenses in Otter Media Holdings. The decrease in 2015 was slightly offset by earnings from investments acquired in our purchase of DIRECTV (see Note 8). The sale of the investment in América Móvil, lower earnings from YP Holdings and our investment in the mobile payment joint venture Softcard™ (Softcard) contributed to lower equity in net income of affiliates in 2014.

	2015	2014	2013
YP Holdings	**$ 101**	$ 134	$ 182
Game Show Network	**14**	—	—
MLB Network	**9**	—	—
SKY Mexico	**(2)**	—	—
Otter Media Holdings	**(31)**	(2)	—
Softcard	**(15)**	(112)	(75)
América Móvil	**—**	153	532
Other	**3**	2	3
Equity in net income of affiliates	**$ 79**	$ 175	$ 642

Other income (expense) – net We had other expense of $52 in 2015, and other income of $1,581 and $596 in 2014 and 2013, respectively. Results for 2015 included foreign exchange losses of $74, net losses on the sale of investments of $87 and interest and dividend income of $95.

Other income for 2014 included a combined net gain of $1,470 on the sale of América Móvil shares, our Connecticut operations and other investments and interest and dividend income of $68. Results for 2013 included a net gain on the sale of América Móvil shares and other investments of $498 and interest and dividend income of $68.

Income tax expense increased $3,386 in 2015 and decreased $5,709 in 2014. The increase in 2015 and decrease in 2014 were primarily due to a change in income before income taxes. Our effective tax rate was 33.9% in 2015, 34.9% in 2014 and 33.3% in 2013 (see Note 11).

Segment Results

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

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

The ***Business Solutions segment*** accounted for approximately 49% of our 2015 total segment operating revenues as compared to 54% in 2014 and 59% of our 2015 total segment contribution as compared to 66% in 2014. This segment provides services to business, governmental and wholesale customers, and individual subscribers who purchase wireless services through employer-sponsored plans. We provide advanced IP-based services including Virtual Private Networks (VPN), Ethernet-related products and broadband, collectively referred to as strategic business services, as well as traditional data and voice products. We utilize our wireless and wired network and are marketed to provide a complete communications solution to our business customers.

The ***Entertainment Group segment*** accounted for approximately 24% of our 2015 total segment operating revenues as compared to 17% in 2014 and 7% of our 2015 total segment contribution as compared to a loss in 2014. This segment provides video, Internet and voice communication services to residential customers located in the U.S. or in U.S. territories. We utilize our copper and IP-based (referred to as "wired" or "wireline") wired network and/or our satellite technology.

The ***Consumer Mobility segment*** accounted for approximately 24% of our 2015 total segment operating revenues as compared to 28% in 2014 and 35% of our 2015 total segment contribution as compared to 39% in 2014. This segment provides nationwide wireless service to consumers, and wireless wholesale and resale subscribers located in the U.S. or in U.S. territories. We utilize our U.S. wireless network to provide voice and data services, including high-speed Internet, video entertainment and home monitoring services.

The ***International segment*** accounted for approximately 3% of our 2015 total segment operating revenues. This segment provides entertainment services in Latin America and wireless services in Mexico. Video entertainment services are provided to primarily residential customers using satellite technology. We utilize our regional and national networks in Mexico to provide consumer and business customers with wireless data and voice communication services. Our international subsidiaries conduct business in their local currency and operating results are converted to U.S. dollars using official exchange rates. Our International segment is subject to foreign currency fluctuations.

Our operating assets are utilized by multiple segments and consist of our wireless and wired networks as well as an international satellite fleet. We manage our assets to provide for the most efficient, effective and integrated service to our customers, not by operating segment, and therefore asset information and capital expenditures by operating segment are not presented. Depreciation is allocated based on network usage or asset utilization by segment.

We discuss capital expenditures in "Liquidity and Capital Resources."

Business Solutions
Segment Results

				Percent Change	
	2015	2014	2013	**2015 vs. 2014**	2014 vs. 2013
Segment operating revenues					
Wireless service	**$30,687**	$30,182	$29,696	**1.7%**	1.6%
Fixed strategic services	**10,910**	9,666	8,444	**12.9**	14.5
Legacy voice and data services	**18,019**	19,857	21,669	**(9.3)**	(8.4)
Other service and equipment	**3,558**	3,860	3,878	**(7.8)**	(0.5)
Wireless equipment	**7,953**	7,041	3,960	**13.0**	77.8
Total Segment Operating Revenues	**71,127**	70,606	67,647	**0.7**	4.4
Segment operating expenses					
Operations and support	**44,946**	45,826	43,442	**(1.9)**	5.5
Depreciation and amortization	**9,789**	9,355	8,965	**4.6**	4.4
Total Segment Operating Expenses	**54,735**	55,181	52,407	**(0.8)**	5.3
Segment Operating Income	**16,392**	15,425	15,240	**6.3**	1.2
Segment Contribution	**$16,392**	$15,425	$15,240	**6.3%**	1.2%

The following table highlights other key measures of performance for the Business Solutions segment:

				Percent Change	
(in 000s)	**2015**	2014	2013	**2015 vs. 2014**	2014 vs. 2013
Business Wireless Subscribers					
Postpaid	**48,290**	45,160	40,811	**6.9%**	10.7%
Reseller	**85**	11	(1)	**—**	—
Connected devices[1]	**25,284**	19,943	16,326	**26.8**	22.2
Total Business Wireless Subscribers	**73,659**	65,114	57,136	**13.1**	14.0
Business Wireless Net Additions[2]					
Postpaid	**1,203**	2,064	1,381	**(41.7)**	49.5
Reseller	**13**	6	—	**—**	—
Connected devices[1]	**5,315**	3,439	2,032	**54.6**	69.2
Business Wireless Net Subscriber Additions	**6,531**	5,509	3,413	**18.6**	61.4
Business Wireless Postpaid Churn[2,3]	**0.99%**	0.90%	0.89%	**9 BP**	1 BP
Business IP Broadband Connections	**911**	822	631	**10.8**	30.3
Business IP Broadband Net Additions	**89**	191	327	**(53.4)%**	(41.6)%

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

Operating revenues increased $521, or 0.7%, in 2015 and $2,959, or 4.4%, in 2014. Revenue growth was driven by wireless revenues and continued growth in fixed strategic business services, partially offset by continued declines in our legacy voice and data services and foreign exchange pressures.

Wireless service revenues increased $505, or 1.7%, in 2015 and $486, or 1.6%, in 2014. The revenue increases reflect smartphone and tablet gains as well as customer migrations from our Consumer Mobility segment.

Business wireless subscribers increased 13.1%, to 73.7 million subscribers at December 31, 2015 compared to 14.0%, to 65.1 million subscribers at December 31, 2014. Postpaid subscribers increased 6.9% in 2015 compared to 10.7% in 2014 reflecting the addition of new customers as well as migrations from our Consumer Mobility segment, partially offset by continuing competitive pressures in the industry. Connected devices, which have lower average revenue per average subscriber (ARPU) and lower churn, increased 26.8% in 2015 compared to 22.2% in 2014 reflecting growth in business customers using tracking, monitoring and other sensor-embedded devices on their equipment.

The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. Business wireless postpaid churn increased to 0.99% in 2015 from 0.90% in 2014 and 0.89% in 2013.

Fixed strategic services revenues increased $1,244, or 12.9%, in 2015 and $1,222, or 14.5%, in 2014. Our revenues, which were negatively impacted by foreign exchange rates, increased in 2015 and 2014 due to: Ethernet increases of $389 and $340, U-verse services increases of $247 and $170, Ethernet access to Managed Internet Services increases of $190 and $163 and VPN increases of $116 and $359.

Legacy wired voice and data service revenues decreased $1,838, or 9.3%, in 2015 and $1,812, or 8.4%, in 2014. Traditional data revenues in 2015 and 2014 decreased $1,040 and $1,318 and long-distance and local voice revenues decreased $797 and $475. The decreases were primarily due to lower demand as customers continue to shift to our more advanced IP-based offerings or our competitors.

Other service revenues decreased $302, or 7.8%, in 2015 and $18, or 0.5%, in 2014. Other service revenues include project-based revenue, which is nonrecurring in nature, as well as revenues from other managed services, outsourcing, government professional service and customer premises equipment. The declines in 2015 and 2014 are primarily due to lower project-based and equipment revenues, as well as impacts from foreign exchange rates.

Wireless equipment revenues increased $912, or 13.0%, in 2015 and $3,081, or 77.8%, in 2014. The increase was primarily due to the increase in handsets sold under our AT&T Next[SM] (AT&T Next) program and the increase in sales of higher-priced smartphones.

Operations and support expenses decreased $880, or 1.9%, in 2015 and increased $2,384, or 5.5%, in 2014. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel costs, such as compensation and benefits.

Expense decreases in 2015 were primarily due to:

- Lower commission costs of $995 primarily due to lower average commission rates and fewer upgrade transactions.
- Lower employee-related charges of $508 resulting from workforce reductions and other cost initiatives.
- Reductions of $269 in access costs, primarily due to lower interconnect, roaming and traffic compensation costs.
- Lower customer service costs of $146 primarily resulting from our simplified offerings and increased efforts to resolve customer inquiries on their first call.

Partially offsetting the decreases in 2015 were:

- Higher wireless handset insurance cost of $370 resulting from higher claim rates and costs per claim.
- Increased equipment expense of $304 due to the continuing trend of customers choosing higher-cost devices.
- Higher bad debt expense of $173 resulting from a higher AT&T Next subscriber base.

Expense increases in 2014 were primarily due to:

- Increased equipment expense of $1,779 due to increased sales and the continuing trend of customers choosing higher-cost devices.
- Network system costs increased $315 due to increased lease fees, higher maintenance and energy costs resulting from the increase in the number of cell sites and expenses related to our network enhancement efforts.
- Higher wireless handset insurance cost of $159 resulting from higher claim rates and costs per claim.

Depreciation expense increased $434, or 4.6%, in 2015 and $390, or 4.4%, in 2014. The increases were primarily due to the increase in ongoing capital spending for network upgrades and expansion partially offset by fully depreciated assets.

Operating income increased $967, or 6.3%, in 2015 and $185, or 1.2%, in 2014. Our Business Solutions segment operating income margin was 23.0% in 2015, compared to 21.8% in 2014 and 22.5% in 2013. Our Business Solutions EBITDA margin was 36.8% in 2015, compared to 35.1% in 2014 and 35.8% in 2013.

Entertainment Group

Segment Results

				Percent Change	
	2015	2014	2013	**2015 vs. 2014**	2014 vs. 2013
Segment operating revenues					
Video entertainment	**$20,271**	$ 6,826	$ 5,810	**—**	17.5%
High-speed Internet	**6,601**	5,522	4,219	**19.5**	30.9
Legacy voice and data services	**5,914**	7,592	9,667	**(22.1)**	(21.5)
Other service and equipment	**2,508**	2,293	1,846	**9.4**	24.2
Total Segment Operating Revenues	**35,294**	22,233	21,542	**58.7**	3.2
Segment operating expenses					
Operations and support	**28,345**	18,992	17,943	**49.2**	5.8
Depreciation and amortization	**4,945**	4,473	4,815	**10.6**	(7.1)
Total Segment Operating Expenses	**33,290**	23,465	22,758	**41.9**	3.1
Segment Operating Income (Loss)	**2,004**	(1,232)	(1,216)	**—**	(1.3)
Equity in Net Income (Loss) of Affiliates	**(4)**	(2)	—	**—**	—
Segment Contribution	**$ 2,000**	$ (1,234)	$ (1,216)	**—**	(1.5)%

The following table highlights other key measures of performance for the Entertainment Group segment:

				Percent Change	
(in 000s)	**2015**	2014	2013	**2015 vs. 2014**	2014 vs. 2013
Video Connections					
Satellite	**19,784**	—	—	**—**	—
U-verse	**5,614**	5,920	5,257	**(5.2)**	12.6
Total Video Connections	**25,398**	5,920	5,257	**—**	12.6
Video Net Additions[1]					
Satellite	**240**	—	—	**—**	—
U-verse	**(306)**	663	889	**—**	(25.4)
Net Video Additions	**(66)**	663	889	**—**	(25.4)
Broadband Connections					
IP	**12,356**	11,383	9,484	**8.5**	20.0
DSL	**1,930**	3,061	4,829	**(36.9)**	(36.6)
Total Broadband Connections	**14,286**	14,444	14,313	**(1.1)**	0.9
Broadband Net Additions					
IP	**973**	1,899	2,266	**(48.8)**	(16.2)
DSL	**(1,130)**	(1,768)	(2,103)	**36.1**	15.9
Net Broadband Additions	**(157)**	131	163	**—**	(19.6)
Retail Consumer Switched Access Lines	**7,286**	9,243	12,013	**(21.2)**	(23.1)
U-verse Consumer VoIP Connections	**5,212**	4,759	3,701	**9.5**	28.6
Total Retail Consumer Voice Connections	**12,498**	14,002	15,714	**(10.7)%**	(10.9)%

[1] Excludes acquisition-related additions during the period.

Operating revenues increased $13,061, or 58.7%, in 2015 and $691, or 3.2%, in 2014. Our July 2015 acquisition of DIRECTV was largely responsible for higher revenues beginning in the third quarter of 2015. Also contributing to the increases was continued strong growth in consumer IP broadband and U-verse video, which more than offset lower revenues from legacy voice and data products.

Video entertainment revenues increased $13,445 in 2015 and $1,016, or 17.5%, in 2014. The 2015 increase was primarily related to our acquisition of DIRECTV. With our acquisition of DIRECTV, we are now focusing our sales efforts on satellite service as there are lower content costs for satellite subscribers. U-verse video revenue increased $932 in 2015. The 2014 increase was primarily due to a 12.6% increase in U-verse video connections, when compared to 2013.

High-speed Internet revenues increased $1,079, or 19.5%, in 2015 and $1,303, or 30.9%, in 2014. When compared to 2014, IP broadband connections increased 8.5%, to 12.4 million connections at December 31, 2015; however, 2015 net additions were lower due to fewer U-verse sales promotions in the year and churn of video customers, some of whom also purchased broadband service. When compared to 2013, IP broadband connections increased 20.0%, to 11.4 million connections at December 31, 2014.

Legacy voice and data service revenues decreased $1,678, or 22.1%, in 2015 and $2,075, or 21.5%, in 2014. The revenue decreases were due to a $1,083 and $1,367 decrease in long-distance and local voice revenues, respectively, and a $593 and $710 decrease in traditional data revenues, which include circuit-based services.

Other service and equipment revenues increased $215, or 9.4%, in 2015 and $447, or 24.2%, in 2014.

Operations and support expenses increased $9,353, or 49.2%, in 2015 and $1,049, or 5.8%, in 2014. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks, providing video content and personnel costs, such as compensation and benefits.

Increased operations and support expenses in 2015 were primarily due to our acquisition of DIRECTV, which increased our Entertainment Group operations and support expenses $9,683. The increases were primarily due to our addition of DIRECTV and content cost increases for our U-verse services.

Increased operations and support expenses in 2014 resulted from an increase of $763 in content costs, reflecting an increased number of subscribers and increasing content costs; an increase of $192 for installation costs; and an increase of $90 for selling and commission expenses resulting from the overall growth of our U-verse services.

Partially offsetting the increased expenses in both years were lower employee charges resulting from ongoing workforce reductions, our focus on cost initiatives and lower equipment costs.

Depreciation expenses increased $472, or 10.6%, in 2015 and decreased $342, or 7.1%, in 2014. Our 2015 increase was primarily due to our acquisition of DIRECTV and ongoing capital spending for network upgrades and expansion, partially offset by fully depreciated assets. Our 2014 decrease was primarily due to extending the estimated useful life of software, partially offset by ongoing capital spending for network upgrades and expansion.

Operating income increased $3,236 in 2015 and decreased $16, or 1.3%, in 2014. Our Entertainment Group segment operating income margin was 5.7% in 2015, (5.5)% in 2014, and (5.6)% in 2013. Our Entertainment Group EBITDA margin was 19.7% in 2015, 14.6% in 2014, and 16.7% in 2013.

Consumer Mobility
Segment Results

				Percent Change	
	2015	2014	2013	**2015 vs. 2014**	2014 vs. 2013
Segment operating revenues					
Postpaid wireless	**$22,030**	$24,282	$27,140	**(9.3)%**	(10.5)%
Prepaid wireless	**4,662**	4,205	2,317	**10.9**	81.5
Other service revenue	**2,458**	2,363	2,399	**4.0**	(1.5)
Equipment	**5,916**	5,919	4,387	**(0.1)**	34.9
Total Segment Operating Revenues	**35,066**	36,769	36,243	**(4.6)**	1.5
Segment operating expenses					
Operations and support	**21,477**	23,891	22,545	**(10.1)**	6.0
Depreciation and amortization	**3,851**	3,827	3,683	**0.6**	3.9
Total Segment Operating Expenses	**25,328**	27,718	26,228	**(8.6)**	5.7
Segment Operating Income	**9,738**	9,051	10,015	**7.6**	(9.6)
Equity in Net Income (Loss) of Affiliates	**—**	(1)	—	**—**	—
Segment Contribution	**$ 9,738**	$ 9,050	$10,015	**7.6%**	(9.6)%

The following table highlights other key measures of performance for the Consumer Mobility segment:

				Percent Change	
(in 000s)	**2015**	2014	2013	**2015 vs. 2014**	2014 vs. 2013
Consumer Mobility Subscribers					
Postpaid	**28,814**	30,610	31,827	**(5.9)%**	(3.8)%
Prepaid	**11,548**	9,965	5,817	**15.9**	71.3
Reseller	**13,690**	13,844	14,028	**(1.1)**	(1.3)
Connected devices[1]	**929**	1,021	1,567	**(9.0)**	(34.8)
Total Consumer Mobility Subscribers	**54,981**	55,440	53,239	**(0.8)**	4.1
Consumer Mobility Net Additions[2]					
Postpaid	**463**	1,226	395	**(62.2)**	—
Prepaid	**1,364**	(311)	377	**—**	—
Reseller	**(168)**	(351)	(1,074)	**52.1**	67.3
Connected devices[1]	**(131)**	(465)	(390)	**71.8**	(19.2)
Consumer Mobility Net Subscriber Additions	**1,528**	99	(692)	**—**	—
Consumer Mobility Postpaid Churn[2,3]	**1.25%**	1.22%	1.26%	**3 BP**	(4) BP
Total Consumer Mobility Churn[2,3]	**1.94%**	2.06%	1.84%	**(12) BP**	22 BP

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

Operating revenues decreased $1,703, or 4.6%, in 2015 and increased $526, or 1.5%, in 2014. Decreased revenues in 2015 reflect declines in postpaid service revenues due to customers choosing Mobile Share plans and migrating to our Business Solutions segment, partially offset by higher prepaid service revenues. Our business wireless offerings allow for individual subscribers to purchase wireless services through employer-sponsored plans for a reduced price. The migration of these subscribers to the Business Solutions segment negatively impacted our consumer postpaid subscriber total and service revenue growth.

Increased revenues in 2014 are primarily due to an increase in prepaid services attributable to our acquisition of Leap and increased equipment revenues. These increases were partially offset by customers choosing Mobile Share plans and migrating to our Business Solutions segment.

Postpaid wireless revenues decreased $2,252, or 9.3%, in 2015 and $2,858, or 10.5%, in 2014. These decreases were largely due to customers continuing to shift to no-device-subsidy plans, which allow for discounted monthly service charges under our Mobile Share plans and the migration of subscribers to Business Solutions. Without the migration of customers to Business Solutions, postpaid wireless revenues would have decreased approximately 4.0% in 2015 and 5.4% for 2014.

Prepaid wireless revenues increased $457, or 10.9%, in 2015 and $1,888, or 81.5%, in 2014. Our prepaid services, which include services sold under the Cricket brand, are monthly prepaid services. Prepaid wireless revenues increased in 2015 primarily due to growth in the subscriber base. The increase in 2014 was primarily due to our March 2014 acquisition of Leap.

Other service revenue increased $95, or 4.0%, in 2015 and decreased $36, or 1.5%, in 2014.

Equipment revenue decreased $3, or 0.1%, in 2015 and increased $1,532, or 34.9%, in 2014. The increase in 2014 was primarily related to the increase in devices sold under our AT&T Next program and the increase in sales of higher-priced smartphones.

Operations and support expenses decreased $2,414, or 10.1%, in 2015 and increased $1,346, or 6.0%, in 2014. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel costs, such as compensation and benefits.

Decreased operations and support expenses in 2015 were primarily due to the following:

- Selling and commission expenses decreased $861 primarily due to lower average commission rates, including those paid under the AT&T Next program, combined with fewer upgrade transactions.
- Network costs decreased $434 primarily due to lower interconnect costs resulting from our ongoing network transition to more efficient Ethernet/IP-based technologies.
- Equipment costs decreased $406 primarily due to the decrease in volume of equipment sales, partially offset by an increase in the cost of smartphones.
- Customer service costs decreased $275 primarily due to reduced salaries and benefits, lower vendor and professional services from reduced call volumes.

- Other cost of service decreased $209 primarily due to incollect roaming fee rate declines, which were partially offset by increased data volume.

Increased operations and support expenses in 2014 were primarily due to the following:

- Equipment costs increased $613, reflecting increased sales and customers choosing more expensive smartphones.
- Handset insurance cost increased $283 due to an increase in the cost of replacement phones.
- Network costs increased $222 due to increased lease fees, higher maintenance and energy costs resulting from the increase in the number of cell sites and expenses related to our network enhancement efforts. These increases were partially offset by lower interconnect costs resulting from our ongoing network transition to more efficient Ethernet/IP-based technologies.
- Other cost of service increased $190 primarily due to equipment/device service-related costs associated with home monitoring services and higher incollect roaming costs resulting from increased data volume, which was partially due to the acquisition of Leap. These increases were partially offset by incollect roaming fee rate declines.

Partially offsetting these increases in 2014 were lower selling and commission expenses of $253, which were primarily due to lower average commission rates, including those paid under the AT&T Next program.

Depreciation expense increased $24, or 0.6%, in 2015 and $144, or 3.9%, in 2014. The increase in 2015 was primarily due to ongoing capital spending for network upgrades and expansion that was largely offset by fully depreciated assets. The increase in 2014 was primarily due to ongoing capital spending for network upgrades and expansion, as well as the acquisition of Leap partially offset by fully depreciated assets and extending the estimated useful life of software.

Operating income increased $687, or 7.6%, in 2015 and decreased $964, or 9.6%, in 2014. Our Consumer Mobility segment operating income margin was 27.8% in 2015, compared to 24.6% in 2014 and 27.6% in 2013. Our Consumer Mobility EBITDA margin was 38.8% in 2015, compared to 35.0% in 2014 and 37.8% in 2013.

International

Segment Results

				Percent Change	
	2015	2014	2013	**2015 vs. 2014**	2014 vs. 2013
Segment operating revenues					
Video entertainment	**$2,150**	$ —	$ —	**—**	—
Wireless	**1,647**	—	—	**—**	—
Equipment	**305**	—	—	**—**	—
Total Segment Operating Revenues	**4,102**	—	—	**—**	—
Segment operating expenses					
Operations and support	**3,930**	—	—	**—**	—
Depreciation and amortization	**655**	—	—	**—**	—
Total Segment Operating Expenses	**4,585**	—	—	**—**	—
Segment Operating Income (Loss)	**(483)**	—	—	**—**	—
Equity in Net Income (Loss) of Affiliates	**(5)**	153	532	**—**	(71.2)
Segment Contribution	**$ (488)**	$153	$532	**—**	(71.2)%

Operating Results

Our International segment consists of the Latin America operations acquired in our July 2015 acquisition of DIRECTV as well as the Mexican wireless operations acquired earlier in 2015 (see Note 7). For 2015, our International segment operating income margin was (11.8)% and our International EBITDA margin was 4.2%.

Our 2015 operating revenues were $4,102, with $1,952 attributable to wireless revenues in Mexico and $2,150 in video services in Latin America. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks, providing video content and personnel costs, such as compensation and benefits. Our 2015 operating expenses were $3,930 and operating loss was $483.

Connections Summary

At December 31, 2015, we had approximately 8.7 million wireless subscribers in Mexico and 12.5 million video connections in Latin America, including 5.4 million in Brazil. Since acquisition, our Mexico wireless business had a net loss of 96,000 subscribers, mainly prepaid customers, and our Latin America operations had a net loss of 147,000 video connections.

Supplemental Operating Information

As a supplemental discussion of our operating results, for comparison purposes, we are providing a view of our combined domestic wireless operations (AT&T Mobility).

AT&T Mobility Results

				Percent Change	
	2015	2014	2013	**2015 vs. 2014**	2014 vs. 2013
Operating revenues					
Service	**$59,837**	$61,032	$61,552	**(2.0)%**	(0.8)%
Equipment	**13,868**	12,960	8,347	**7.0**	55.3
Total Operating Revenues	**73,705**	73,992	69,899	**(0.4)**	5.9
Operating expenses					
Operations and support	**45,789**	48,348	44,508	**(5.3)**	8.6
EBITDA	**27,916**	25,644	25,391	**8.9**	1.0
Depreciation and amortization	**8,113**	7,744	7,249	**4.8**	6.8
Total Operating Expenses	**53,902**	56,092	51,757	**(3.9)**	8.4
Operating Income	**$19,803**	$17,900	$18,142	**10.6%**	(1.3)%

The following table highlights other key measures of performance for AT&T Mobility:

				Percent Change	
(in 000s)	**2015**	2014	2013	**2015 vs. 2014**	2014 vs. 2013
Wireless Subscribers[1]					
Postpaid smartphones	**58,073**	56,644	51,874	**2.5%**	9.2%
Postpaid feature phones and data-centric devices	**19,032**	19,126	20,764	**(0.5)**	(7.9)
Postpaid	**77,105**	75,770	72,638	**1.8**	4.3
Prepaid[5]	**11,548**	9,965	5,817	**15.9**	71.3
Reseller	**13,774**	13,855	14,028	**(0.6)**	(1.2)
Connected devices[2]	**26,213**	20,964	17,893	**25.0**	17.2
Total Wireless Subscribers	**128,640**	120,554	110,376	**6.7**	9.2
Net Additions[3]					
Postpaid	**1,666**	3,290	1,776	**(49.4)**	85.2
Prepaid[5]	**1,364**	(311)	377	**—**	—
Branded Net Adds	**3,030**	2,979	2,153	**1.7**	38.4
Reseller	**(155)**	(346)	(1,074)	**55.2**	67.8
Connected devices[2]	**5,184**	2,975	1,642	**74.3**	81.2
Net Subscriber Additions	**8,059**	5,608	2,721	**43.7**	—
Branded smartphones	**67,200**	62,443	54,262	**7.6**	15.1
Mobile Share connections	**61,275**	52,370	21,143	**17.0**	—
Smartphones under our installment program at end of period	**26,670**	15,308	1,488	**74.2**	—
Smartphones sold under our installment program during period	**17,320**	15,268	1,540	**13.4%**	—
Total Churn[4]	**1.39%**	1.45%	1.37%	**(6) BP**	8 BP
Postpaid Churn[4]	**1.09%**	1.04%	1.06%	**5 BP**	(2) BP

[1] Represents 100% of AT&T Mobility wireless subscribers.
[2] Includes data-centric devices such as session-based tablets, monitoring devices and automobile systems. Excludes postpaid tablets.
[3] Excludes acquisition-related additions during the period.
[4] Calculated by dividing the aggregate number of wireless subscribers who canceled service during a period divided by the total number of wireless subscribers at the beginning of that period. The churn rate for the period is equal to the average of the churn rate for each month of that period.
[5] In 2015, session-based tablets were reclassified to connected devices. Prior period amounts reflect the current period presentation.

Operating income increased $1,903, or 10.6%, in 2015 and decreased $242, or 1.3%, in 2014. The operating income margin of AT&T Mobility was 26.9% in 2015, compared to 24.2% in 2014 and 26.0% in 2013. AT&T Mobility's EBITDA margin was 37.9% in 2015, compared to 34.7% in 2014 and 36.3% in 2013. AT&T Mobility's EBITDA service margin was 46.7% in 2015, compared to 42.0% in 2014 and 41.3% in 2013. (EBITDA service margin is operating income before depreciation and amortization, divided by total service revenues.)

Subscriber Relationships

As the wireless industry continues to mature, we believe that future wireless growth will increasingly depend on our ability to offer innovative services, plans and devices and a wireless network that has sufficient spectrum and capacity to support these innovations on as broad a geographic basis as possible. To attract and retain subscribers in a maturing market, we have launched a wide variety of plans, including Mobile Share and AT&T Next.

ARPU

Postpaid phone-only ARPU (average revenue per average wireless subscriber) decreased 4.0% in 2015 and 6.6% in 2014 reflecting subscribers' continued adoption of AT&T Next and Mobile Share plans. Postpaid phone-only ARPU plus AT&T Next subscriber installment billings (postpaid phone-only ARPU plus AT&T Next) increased 3.4% in 2015 due to the continuing growth of the AT&T Next program. Postpaid phone-only ARPU plus AT&T Next decreased 2.4% in 2014.

Churn

The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. Total churn was lower in 2015. Postpaid churn was slightly higher in 2015 reflecting continuing competitive pressure in the industry.

Postpaid

Postpaid subscribers increased 1.8% and 4.3% in 2015 and 2014, respectively. At December 31, 2015, 87% of our postpaid phone subscriber base used smartphones, compared to 83% at December 31, 2014 and 77% at December 31, 2013. About 98% of our postpaid smartphone subscribers are on plans that provide for service on multiple devices at reduced rates, and such subscribers tend to have higher retention and lower churn rates. A growing percentage of our postpaid smartphone subscribers are on usage-based data plans, with approximately 51.1 million subscribers on these plans as compared to 48.5 million and 38.7 million, respectively, in the prior two years. About half of our Mobile Share accounts have chosen data plans with 10 gigabytes or higher. Device connections on our Mobile Share plans now represent over 79% of our postpaid customer base. Such offerings are intended to encourage existing subscribers to upgrade their current services and/or add connected devices, attract subscribers from other providers and minimize subscriber churn.

During 2015, we offered postpaid wireless service under two alternatives: (1) for subscribers purchasing a device on installments under the AT&T Next program or for those that bring their own device, no annual service contract is signed; however, the device must be paid in full under the AT&T Next contract if the customer chooses to drop their service from AT&T; and (2) for subscribers who purchase their equipment under the traditional device subsidy model, service contracts are for two-year periods with an increasing portion of these subscribers receiving unlimited voice and texting services in conjunction with data services purchased through our Mobile Share plans. Approximately 69% of all postpaid smartphone gross ads and upgrades during 2015 chose AT&T Next. While BYOD customers do not generate equipment revenue or incur additional expenses for device subsidy, the service revenue helps improve our margins. In late December 2015, we announced an end to offering subsidized handsets for most of our customers.

Our AT&T Next program allows for postpaid subscribers to purchase certain devices in installments over a period of up to 30 months. Additionally, after a specified period of time, they also have the right to trade in the original device for a new device with a new installment plan and have the remaining unpaid balance satisfied. For customers who elect these installment programs, we recognize equipment revenue at the time of the sale for the amount of the customer receivable, net of the fair value of the trade-in right guarantee and imputed interest. A significant percentage of our customers on the AT&T Next program pay a lower monthly service charge, which results in lower service revenue recorded for these subscribers.

Prepaid

In 2015, we updated our definition of prepaid subscribers to exclude session-based tablets, which are now included with connected devices. Prepaid subscribers now consist primarily of phone users. Prepaid subscribers increased 15.9% and 71.3% in 2015 and 2014, respectively.

Connected Devices

Connected devices includes data-centric devices such as session-based tablets, monitoring devices and automobile systems. Connected device subscribers increased 25.0% and 17.2% in 2015 and 2014, respectively. During 2015, we added approximately 3.9 million "connected" cars through agreements with various carmakers. We believe that these connected car agreements give us the opportunity to create future retail relationships with the car owners.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

2016 Revenue Trends We expect our operating environment in 2016 to be very competitive, especially in the wireless area, as companies and consumers continue to demand instant connectivity and yet we face a regulatory environment that appears increasingly unfriendly to investment in broadband services. Despite these challenges, we expect to grow our consolidated operating revenues in 2016, driven by our ability to offer integrated wireless, video and wireline services, as well as continuing growth in fixed strategic services. We expect that robust competition in the wireless industry will continue to pressure service revenue and ARPU. Our AT&T Next program is expected to generate continued growth in equipment revenue, which has the corresponding impact of lowering service revenues. In late December 2015, we announced an end to offering subsidized handsets for most of our customers. We expect that all our major customer categories will continue to increase their use of Internet-based broadband/data services. We expect continuing declines in traditional telephone service revenues. We expect our 2015 acquisitions of DIRECTV and wireless properties in Mexico to increase revenues, although we expect to incur significant integration costs in the same period.

2016 Expense Trends We expect stable consolidated operating income margins in 2016 as growth in AT&T Next is reducing subsidized handset costs over time and we lower our marginal cost of providing video services and operating our network. We expect to continue our focus on cost reductions, driving savings through automation, supply chain, benefits, digitizing transactions and optimizing network costs. In addition, the transition of our network to a more efficient software-based technology is expected to contribute to favorable expense trends over the next several years. Expenses related to growth areas of our business, including wireless data, and integration of DIRECTV's operations, will apply offsetting pressure to our operating income margin.

Market Conditions During 2015, the ongoing slow recovery in the general economy continued to negatively affect our customers. Certain industries, such as energy and export-driven businesses are being especially cautious while residential customers continue to be price sensitive in selecting offerings, especially in the wireless area, and continue to focus on offerings that give them efficient access to video and broadcast services. We expect continued pressure on pricing during 2016 as we respond to this intense competition, especially in the wireless business.

Included on our consolidated balance sheets are assets held by benefit plans for the payment of future benefits. Our pension plans are subject to funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). In September 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC to the trust used to pay pension benefits. The trust is entitled to receive cumulative annual cash distributions of $560, which will result in a $560 contribution during 2016. In addition, we will contribute $175 no later than the due date for our federal income tax return for 2015. We do not have significant additional contribution requirements to our pension plans for 2016. However, a weakness in the equity, fixed income and real asset markets could require us in future years to make contributions to the pension plans in order to maintain minimum funding requirements as established by ERISA. Investment returns on these assets depend largely on trends in the U.S. securities markets and the U.S. economy. In addition, our policy of recognizing actuarial gains and losses related to our pension and other postretirement plans in the period in which they arise subjects us to earnings volatility caused by changes in market conditions. Changes in our discount rate, which are tied to changes in the bond market, and changes in the performance of equity markets, may have significant impacts on the valuation of our pension and other postretirement obligations at the end of 2016 (see "Accounting Policies and Estimates").

OPERATING ENVIRONMENT OVERVIEW

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

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

In February 2015, the FCC released an order reclassifying both fixed and mobile consumer broadband Internet access services as telecommunications services, subject to comprehensive regulation under the Telecom Act. The FCC's decision significantly expands the FCC's existing authority to regulate the provision of fixed and mobile broadband Internet access services. AT&T and other providers of broadband Internet access services have challenged the FCC's decision before the U.S. Court of Appeals for the D.C. Circuit. We expect a decision on AT&T's appeal in the first half of 2016.

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

We provide wireless services in robustly competitive markets, but those services are subject to substantial and increasing governmental regulation. Wireless communications providers must obtain licenses from the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the FCC rules and policies governing the use of the spectrum. While wireless communications providers' prices and service offerings are generally not subject to state regulation, states sometimes attempt to regulate or legislate various aspects of wireless services, such as in the area of consumer protection.

The FCC has recognized that the explosive growth of bandwidth-intensive wireless data services requires the U.S. Government to make more spectrum available. In February 2012, Congress set forth specific spectrum blocks to be auctioned and licensed by February 2015 (the "AWS-3 Auction"), and also authorized the FCC to conduct an "incentive auction," to make available for wireless broadband use certain spectrum that is currently used by broadcast television licensees (the "600 MHz Auction"). We participated in the AWS-3 Auction. The FCC announced that the 600 MHz Auction (Auction 1000) is scheduled to begin on March 29, 2016.

In May 2014, in a separate proceeding, the FCC issued an order revising its policies governing mobile spectrum holdings. The FCC rejected the imposition of caps on the amount of spectrum any carrier could acquire, retaining its case-by-case review policy. Moreover, it increased the amount of spectrum that could be acquired before exceeding an aggregation "screen" that would automatically trigger closer scrutiny of a proposed transaction. On the other hand, it indicated that it will separately consider an acquisition of "low band" spectrum that exceeds one-third of the available low band spectrum as presumptively harmful to competition. In addition, the FCC imposed limits on certain bidders in the 600 MHz Auction, including AT&T, restricting them from bidding on up to 40 percent of the available spectrum in the incentive auction in markets that cover as much as 70–80 percent of the U.S. population. On balance, the order and the new spectrum screen should allow AT&T to obtain additional spectrum to meet our customers' needs, but because AT&T uses more "low band" spectrum in its network than some other national carriers, the separate consideration of low band spectrum acquisitions might affect AT&T's ability to expand capacity in these bands ("low band" spectrum has better propagation characteristics than "high band" spectrum). We seek to ensure that we have the opportunity, through the auction process and otherwise, to obtain the spectrum we need to provide our customers with high-quality service in the future.

Expected Growth Areas

Over the next few years, we expect our growth to come from IP-based broadband services, video entertainment and wireless services from our expanded North American footprint. With our 2015 acquisitions of DIRECTV and wireless properties in Mexico, our revenue mix is much more diversified. We can now provide integrated services to diverse groups of customers in the U.S. on different technological platforms, including wireless, satellite and wireline. In 2016, we expect our largest revenue stream to come from business customers, followed by U.S. consumer video and broadband, U.S. consumer mobility and then international video and mobility.

Integration of Data/Broadband and Entertainment Services As the communications industry continues to move toward Internet-based technologies that are capable of blending wireline, satellite and wireless services, we plan to offer services that take advantage of these new and more sophisticated technologies. In particular, we intend to continue to focus on expanding our high-speed Internet and video offerings and on developing IP-based services that allow customers to unite their home or business fixed services with their mobile service. During 2016, we will continue to develop and provide unique integrated video, mobile and broadband solutions. In January 2016, we began offering an unlimited mobile data plan to customers who also purchase DIRECTV or U-verse video service, thereby facilitating our customers' desire to view video anywhere on demand and encouraging customer retention.

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

In the United States, we now cover all major metropolitan areas and more than 310 million people with our LTE technology. We also provide 4G coverage using another technology (HSPA+), and when combined with our upgraded backhaul network, we are able to enhance our network capabilities and provide superior mobile broadband speeds for data and video services. Our wireless network also relies on other GSM digital transmission technologies for 3G and 2G data communications. As of December 31, 2015, we served more than 128 million U.S. subscribers.

As the wireless industry continues to mature, we believe that future wireless growth will increasingly depend on our ability to offer innovative video and data services and a wireless network that has sufficient spectrum and capacity to support these innovations. We continue to face spectrum and capacity constraints on our wireless network in certain markets. We expect such constraints to increase and expand to additional markets in the coming years. While we are continuing to invest significant capital in expanding our network capacity, our capacity constraints could affect the quality of existing voice and data services and our ability to launch new, advanced wireless broadband services, unless we are able to obtain more spectrum. Any long-term spectrum solution will require that the FCC make additional spectrum available to the wireless industry to meet the expanding needs of our subscribers. We will continue to attempt to address spectrum and capacity constraints on a market-by-market basis.

In 2015, we acquired two Mexican wireless providers. These two acquisitions give us a GSM network covering both the U.S. and Mexico and enable our customers to use wireless services without roaming on other companies' networks. We believe this seamless access will prove attractive to customers and provide a significant growth opportunity. We also announced in 2015 our plan to invest $3,000 to upgrade the network in Mexico to provide LTE coverage to 100 million people and businesses by year-end 2018. As of year-end 2015, this LTE network covered approximately 44 million people and businesses in Mexico.

REGULATORY DEVELOPMENTS

Set forth below is a summary of the most significant regulatory proceedings that directly affected our operations during 2015. Industry-wide regulatory developments are discussed above in Operating Environment Overview. While these issues may apply only to certain subsidiaries, the words "we," "AT&T" and "our" are used to simplify the discussion. The following discussions are intended as a condensed summary of the issues rather than as a comprehensive legal analysis and description of all of these specific issues.

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

Federal Regulation In February 2015, the FCC released an order in response to the D.C. Circuit's January 2014 decision adopting new rules, and reclassifying both fixed and mobile consumer broadband Internet access services as telecommunications services, subject to comprehensive regulation under the Telecom Act. The FCC's decision significantly expands the FCC's existing authority to regulate the provision of fixed and mobile broadband Internet access services. The FCC also asserted jurisdiction over Internet interconnection arrangements, which until now have been unregulated. These actions could have an adverse impact on our fixed and mobile broadband services and operating results. AT&T and several other parties, including US Telecom and CTIA trade groups, have appealed the FCC's order. Briefing and oral argument on the appeal have been completed. The D.C. Circuit is expected to rule on the appeal in the first half of 2016.

COMPETITION

Competition continues to increase for communications and digital entertainment services. Technological advances have expanded the types and uses of services and products available, which has expanded opportunities in significant portions of our business, including our 2015 acquisitions of DIRECTV and two Mexican wireless providers. Certain of our competitors may have lower costs for comparable alternative services due to a lack of or a reduced level of regulation.

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

Our subsidiaries providing communications and digital entertainment services will face continued competitive pressure in 2016 from multiple providers, including wireless, satellite, cable and other VoIP providers, online video providers, and interexchange carriers and resellers. In addition, the desire for high-speed data on demand, including video, and lingering economic sluggishness are continuing to lead customers to terminate their traditional wired services and use our or competitors' wireless, satellite and Internet-based services. In most markets, we compete for customers, often on pricing of bundled services, with large cable companies, such as Comcast Corporation, Cox Communications Inc. and Time Warner Cable Inc., for high-speed Internet, video and voice services and other smaller telecommunications companies for both long-distance and local services. In addition, in Latin American countries served by our DIRECTV subsidiary, we also face competition from other video providers, including América Móvil and Telefónica.

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

Our Entertainment Group and Business Solutions segments operate portions of their business under state-specific forms of regulation for retail services that were either legislatively enacted or authorized by the appropriate state regulatory commission. Most states deregulate the competitive services; impose price caps for some services where the prices for these services are not tied to the cost of providing the services or to rate-of-return requirements; or adopt a regulatory framework that incorporates deregulation and price caps. Some states may impose minimum customer service standards with required payments if we fail to meet the standards.

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

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

ACCOUNTING POLICIES AND STANDARDS

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

Allowance for Doubtful Accounts We record expense to maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments. When determining the allowance, we consider the probability of recoverability based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts and installment receivable balances with reserves generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the allowances for doubtful accounts are adjusted through expense accordingly. A 10% change in the amounts estimated to be uncollectible would result in a change in the provision for uncollectible accounts of approximately $142.

Pension and Postretirement Benefits Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 12. Our assumed discount rate for pension and postretirement benefits of 4.60% and 4.50%, respectively, at December 31, 2015, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2015, we increased our pension discount rate by 0.30%, resulting in a decrease in our pension plan benefit obligation of $1,977 and increased our postretirement discount rate by 0.30%, resulting in a decrease in our postretirement benefit obligation of $854. For the year ended December 31, 2014, 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.

Our expected long-term rate of return on pension plan assets is 7.75% for 2016 and 2015. Our expected long-term rate of return on postretirement plan assets is 5.75% for 2016 and 2015. Our expected return on plan assets is calculated using the actual fair value of plan assets. 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 2016 combined pension and postretirement cost to increase $232, which under our accounting policy would be adjusted to actual returns in the current year as part of our fourth-quarter remeasurement of our retiree benefit plans. In 2015, the actual return on our combined pension and postretirement plan assets was 1.3%, resulting in an actuarial loss of $3,070.

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

Depreciation Our depreciation of assets, including use of composite group depreciation and estimates of useful lives, is described in Notes 1 and 6. We assign useful lives based on periodic studies of actual asset lives. During 2014, we completed studies evaluating the periods that we were utilizing our software assets, which resulted in our extending our estimated useful lives for certain capitalized software to five years to better reflect the estimated periods during which these assets will remain in service, which is also consistent with the estimated useful lives used in the industry. Prior to 2014, all capitalized software costs were primarily amortized over a three-year period.

If all other factors were to remain unchanged, we expect that a one-year increase in the useful lives of our plant in service would have resulted in a decrease of approximately $3,550 in our 2015 depreciation expense and that a one-year decrease would have resulted in an increase of approximately $4,886 in our 2015 depreciation expense.

Asset Valuations and Impairments We allocate the purchase price of acquired businesses to the assets acquired and liabilities assumed based on their estimated fair values. The estimated fair values of intangible assets acquired are based on the expected discounted cash flows of the identified customer relationships, patents, trade names, orbital slots and wireless licenses (spectrum). In determining the future cash flows, we consider demand, competition and other economic factors.

Customer relationships, which are finite-lived intangible assets, are primarily amortized using 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 sum-of-the-months-digits method is a process of allocation and reflects our belief that we expect greater revenue generation from these customer relationships during the earlier periods after acquisition. Amortization of other intangibles, including patents and certain trade names, is determined using the straight-line method of amortization over the expected remaining useful lives or specified contractual terms.

Goodwill and other indefinite lived intangible assets are not amortized but tested at least annually for impairment. We conduct our impairment tests as of October 1. We test goodwill on a reporting unit basis, and some reporting units coincide with our segments, while others are one level below our segments. If, due to changes in how we manage the business, we move a portion of a reporting unit to another reporting unit, we determine the amount of goodwill to reallocate to the new reporting unit based on the relative fair value of the portion of the business moved and the portion of the business remaining in the reporting unit. The goodwill impairment test is a two-step process. The first step involves determining the fair value of the reporting unit and comparing that measurement to the book value. If the fair value exceeds the book value, then no further testing is required. If the fair value is less than the book value (i.e., an indication of impairment exists), then we perform the second step.

In the second step, we determine the fair values of all of the assets and liabilities of the reporting unit, including those that may not be currently recorded. The difference between the sum of all of those fair values and the overall reporting unit's fair value is a new implied goodwill amount, which we compare to the recorded goodwill. If implied goodwill is less than the recorded goodwill, then we record an impairment of the recorded goodwill. The amount of this impairment may be more or less than the difference between the overall fair value and book value of the reporting unit. It may even be zero if the fair values of other assets are less than their book values.

As shown in Note 7, all of our goodwill resides in the Business Solutions, Entertainment Group, Consumer Mobility and International segments. For each of the reporting units in those segments, we assess their fair values using an income approach (also known as a discounted cash flow) and a market multiple approach. The income approach utilizes a 10-year cash flow projection with a perpetuity value discounted using an appropriate weighted average cost of capital rate for each reporting unit. The market multiple approach uses a multiple of a company's EBITDA. We determined the multiples of the publicly traded companies whose services are comparable to those offered by the reporting unit and then calculated a weighted-average of those multiples. Using those weighted averages, we then calculated fair values for each of those reporting units. In 2015, the calculated fair value of the reporting unit exceeded book value in all circumstances, and no additional testing was necessary. In the event of a 10% drop in the fair values of the reporting units, the fair values would have still exceeded the book values of the reporting units, and additional testing would still have not been necessary.

Wireless licenses (spectrum) in the U.S. are tested for impairment on an aggregate basis, consistent with use of the licenses to support the Business Solutions and Consumer Mobility segments on a national scope. As in prior years, we performed our test of the fair values of licenses using a discounted cash flow model (the Greenfield Approach). We also corroborated the value of wireless licenses with a market approach as the AWS-3 auction provided market price information for national wireless licenses. The Greenfield Approach assumes a company initially owns only the wireless licenses, and then makes investments required to build an operation comparable to the one that currently utilizes the licenses. We utilized a 17-year discrete period to isolate cash flows attributable to the licenses, including modeling the hypothetical build-out. The projected cash flows are based on certain financial factors, including revenue growth rates, EBITDA margins and churn rates. For impairment testing purposes, we assumed wireless revenue growth to trend up from our 2015 decline of 0.4% to a long-term growth rate that reflects expected long-term inflation trends. We assumed our churn rates will increase in 2016 from our rate of 1.39% in 2015, in line with expected trends in the U.S. industry but at a rate comparable with industry-leading churn. EBITDA margins were assumed to trend toward 40% annually, and EBITDA service margins were assumed to continue to trend to at least 40% annually.

This model then incorporates cash flow assumptions regarding investment in the network, development of distribution channels and the subscriber base, and other inputs for making the business operational. We based the assumptions on a combination of average marketplace participant data and our historical results, trends and business plans. We also used operating metrics such as capital investment per subscriber, acquisition costs per subscriber, minutes of use per subscriber, etc., to develop the projected cash flows. Since we included the cash flows associated with these other inputs in the annual cash flow projections, the present value of the unlevered free cash flows of the segment, after investment in the network, subscribers, etc., is attributable to the wireless licenses. The terminal value of the segment, which incorporates an assumed sustainable growth rate, is also discounted and is likewise attributed to the licenses. We used a discount rate of 8.25%, based on the optimal long-term capital structure of a market participant and its associated cost of debt and equity, to calculate the present value of the projected cash flows. This discount rate is also consistent with rates we use to calculate the present value of the projected cash flows of licenses acquired from third parties.

If either the projected rate of long-term growth of cash flows or revenues declined by 0.5%, or if the discount rate increased by 0.5%, the fair values of the wireless licenses, while less than currently projected, would still be higher than the book value of the licenses. The fair value of the licenses exceeded the book value by more than 10%.

We review customer relationships and other long-lived 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. To determine that the asset is recoverable, we verify that the expected undiscounted future cash flows directly related to that asset exceed its book value.

We evaluate our investments to determine whether market declines are temporary and accordingly reflected in accumulated other comprehensive income, or other-than-temporary and recorded as an expense in "Other income (expense) – net" in the consolidated statements of income. This evaluation is based on the length of time and the severity of decline in the investment's value. In 2014, we identified an immaterial other-than-temporary decline in the value of equity method investments and various cost investments.

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

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

New Accounting Standards

See Note 1 for a discussion of recently issued or adopted accounting standards.

OTHER BUSINESS MATTERS

DIRECTV In July 2015, we completed our acquisition of DIRECTV, a leading provider of digital television entertainment services in both the United States and Latin America. The acquisition gives us a unique and complementary set of assets and the opportunity to achieve substantial cost synergies over time, as well as increasing revenue from bundling and integrating services. Our distribution scale enables us to offer consumers attractive combinations of video, high-speed broadband and mobile services, using all the sales channels of both companies. We believe the combined company will be a content distribution leader across mobile, video and broadband platforms.

Under the merger agreement, each share of DIRECTV stock was exchanged for $28.50 cash plus 1.892 shares of our common stock. After adjustment for shares issued to trusts consolidated by AT&T, stock based payment arrangements and fractional shares, which were settled in cash, AT&T issued 954,407,524 shares to DIRECTV shareholders, giving them an approximate 16% stake in the combined company, based on common shares outstanding. Based on our $34.29 per share closing stock price on July 24, 2015, the aggregate value of consideration paid to DIRECTV shareholders was $47,409, including $32,727 of AT&T stock and $14,378 in cash, $299 for share-based payment arrangements and $5 for DIRECTV shares previously purchased on the open market by trusts consolidated by AT&T.

The FCC approved the transaction subject to the following conditions:

- Fiber to the Premises Deployment – Within four years, we will offer our all-fiber Internet access service to at least 12.5 million customer locations such as residences, home offices and very small businesses. Combined with our existing high-speed broadband network, at least 25.7 million customer locations will have access to broadband speeds of 45Mbps or higher by the end of the four-year build. While the addition of medium and large businesses do not count towards the commitments, we will have the opportunity to provide services to those customers as part of this expansion. In addition, we will offer 1 Gbps fiber Internet access service pursuant to applicable E-rate rules to any eligible school or library requesting that service within or contiguous to our all-fiber footprint.
- Discounted Broadband Services Program – Within our 21-state area, we will offer a discounted fixed broadband service to low-income households that qualify for the government's Supplemental Nutrition Assistance Program. In locations where it is available, service with speeds of at least 10Mbps will be offered for ten dollars per month. Elsewhere, 5Mbps service will be offered for ten dollars per month or, in some locations, 3Mbps service will be offered for five dollars per month.
- Non-Discriminatory Usage-Based Practices – We are required to refrain from using usage-based allowances or other retail terms and conditions on our fixed broadband Internet access service, as defined in the order, to discriminate in favor of our own online video services. We can and will continue to offer discounts on integrated bundles of our video and fixed broadband services.

- Internet Interconnection Disclosure Requirements – We will submit to the FCC new interconnection agreements we enter into with peering networks and with "on-net" customers that purchase Managed Internet Service to exchange Internet traffic with other AT&T customers. We will develop, together with an independent expert, a methodology for measuring the performance of our Internet traffic exchange and regularly report these metrics to the FCC.
- Compliance Program and Reporting – We have appointed a Company Compliance Officer to develop and implement a plan to ensure compliance with these merger conditions. We will engage an independent, third-party compliance officer to evaluate the plan and our implementation. Both AT&T and the independent compliance officer will submit periodic reports to the FCC.

The conditions will remain in effect for four years from July 24, 2015. A condition may be extended once for two years if the FCC makes a formal finding that we have violated the condition in whole or in part.

Litigation Challenging DIRECTV's NFL Sunday Ticket More than a dozen putative class actions have been filed in the U.S. District Courts for the Central District of California and the Southern District of New York against DIRECTV and the National Football League (NFL) alleging that the NFL and DIRECTV violated federal antitrust law in connection with the NFL Sunday Ticket package. Among other things, the complaints allege that plaintiffs have been overcharged for the televised presentation of out-of-market NFL games due to DIRECTV's exclusive agreement with the NFL to broadcast out-of-market games through the Sunday Ticket package. The complaints seek unspecified treble damages and attorneys' fees along with injunctive relief. The first complaint, Abrahamian v. National Football League, Inc., et al., was served in June 2015. In December 2015, the Judicial Panel on Multidistrict Litigation transferred the cases outside the Central District of California to that court for consolidation and management of pre-trial proceedings. We vigorously dispute the allegations the complaints have asserted.

Federal Trade Commission Litigation Involving DIRECTV In March 2015, the Federal Trade Commission (FTC) filed a civil suit in the U.S. District Court for the Northern District of California against DIRECTV seeking injunctive relief and unspecified money damages under Section 5 of the Federal Trade Commission Act and Section 4 of the Restore Online Shoppers' Confidence Act. The FTC's allegations concern DIRECTV's advertising, marketing and sale of programming packages. The FTC alleges that DIRECTV did not adequately disclose all relevant terms. We are disputing these allegations vigorously.

Unlimited Data Plan Claims In October 2014, the FTC filed a civil suit in the U.S. District Court for the Northern District of California against AT&T Mobility, LLC seeking injunctive relief and unspecified money damages under Section 5 of the Federal Trade Commission Act. The FTC's allegations concern AT&T's Maximum Bit Rate (MBR) program, which temporarily reduces the download speeds of a small portion of our legacy Unlimited Data Plan customers each month. MBR is an industry-standard practice that is designed to affect only the most data-intensive applications (such as video streaming). Texts, emails, tweets, social media posts, Internet browsing and many other applications are typically unaffected. Contrary to the FTC's allegations, which we vigorously dispute, our MBR program is permitted by our customer contracts, was fully disclosed in advance to our Unlimited Data Plan customers, and was implemented to protect the network for the benefit of all customers. In March 2015, our motion to dismiss the litigation on the grounds that the FTC lacked jurisdiction to file suit was denied. In May 2015, the Court granted our motion to certify its decision for immediate appeal. The United States Court of Appeals for the Ninth Circuit subsequently granted our petition to accept the appeal, and the appeal is now pending before that Court while limited discovery proceeds in the District Court. In addition to the FTC case, several class actions have been filed also challenging our MBR program. We vigorously dispute the allegations the complaints have asserted.

On June 17, 2015, the FCC issued a Notice of Apparent Liability and Order (NAL) to AT&T Mobility, LLC concerning our MBR policy that applies to Unlimited Data Plan customers. The NAL alleges that we violated the FCC's Open Internet Transparency Rule by using the term "unlimited" in connection with the offerings subject to the MBR policy and by failing adequately to disclose the speed reductions that apply once a customer reaches a specified data threshold. The NAL proposes a forfeiture penalty of $100, and further proposes to order us to correct any misleading and inaccurate statements about our unlimited plans, inform customers of the alleged violation, revise our disclosures to address the alleged violation and inform these customers that they may cancel their plans without penalty after reviewing the revised disclosures. On July 17, 2015, we filed our response to the NAL. We believe that the NAL is unlawful and should be withdrawn, because we have fully complied with the Open Internet Transparency Rule and the FCC has no authority to impose the proposed remedies. The matter is currently pending before the FCC.

LIQUIDITY AND CAPITAL RESOURCES

We had $5,121 in cash and cash equivalents available at December 31, 2015. Approximately $807 of our cash and cash equivalents resided in foreign jurisdictions, some of which are subject to restrictions on repatriation. Cash and cash equivalents decreased $3,482 since December 31, 2014. We also had $401 in short-term investments, which we included in "Other current assets" on our consolidated balance sheets. In 2015, cash inflows were primarily provided by cash receipts from operations, including cash from our sale and transfer of certain equipment installment receivables to third parties and long-term debt issuances. These inflows were offset by cash used to meet the needs of the business, including, but not limited to, payment of operating expenses; acquisitions of wireless spectrum, DIRECTV, GSF Telecom Holdings, S.A.P.I. de C.V. (GSF Telecom) and Nextel Mexico; funding capital expenditures; debt repayments; dividends to stockholders; and collateral posting (see Note 9). We discuss many of these factors in detail below.

Cash Provided by or Used in Operating Activities

During 2015, cash provided by operating activities was $35,880, compared to $31,338 in 2014. Higher operating cash flows in 2015 were primarily due to improved operating results, our acquisition of DIRECTV and working capital improvements.

During 2014, cash provided by operating activities was $31,338 compared to $34,796 in 2013. Lower operating cash flows in 2014 were primarily due to wireless device financing related to AT&T Next, which results in cash collection over the installment period instead of at the time of sale, increased inventory levels and retirement benefit funding. Proceeds from the sale of equipment installment receivables and the timing of working capital payments partially offset the decline in operating cash flows.

Cash Used in or Provided by Investing Activities

During 2015, cash used in investing activities consisted primarily of:

- $17,740 for acquisitions of spectrum licenses, largely due to the remaining payment for AWS spectrum licenses in the AWS-3 Auction.
- $19,218 in capital expenditures, excluding interest during construction.
- $13,019 net of cash acquired for the acquisitions of DIRECTV, GSF Telecom, Nextel Mexico and other operations.

During 2015, we also received $1,945 upon the maturity of certain short-term investments and paid $400 for additional short-term investments.

Virtually all of our capital expenditures are spent on our communications networks and our video services and support systems for our digital entertainment services. Capital expenditures, excluding interest during construction, decreased $1,981 from 2014, reflecting the completion of our LTE build and other Project Velocity IP initiatives in 2014. In connection with capital improvements to our wireless network in Mexico, we also negotiated in 2015 favorable payment terms (referred to as vendor financing). In 2015, we deferred $684 of vendor financing related to capital additions to future periods. Capital expenditures also include spending for DIRECTV, GSF Telecom and Nextel Mexico after the acquisition dates. As part of our organizational realignment, we no longer allocate capital expenditures to our segments.

We expect our 2016 capital investment, which includes our capital expenditures plus vendor financing payments related to our Mexico network, for our existing businesses to be in the $22,000 range, and we expect our capital investment to be in the 15 percent range of service revenues or lower from 2016 through 2018. The amount of capital investment is influenced by demand for services and products, capacity needs and network enhancements. We are also focused on ensuring merger commitments are met.

Cash Used in or Provided by Financing Activities

We paid dividends of $10,200 in 2015, $9,552 in 2014, and $9,696 in 2013. The increase in 2015 is primarily due to the increase in shares outstanding resulting from our acquisition of DIRECTV and the increase in the quarterly dividend approved by our Board of Directors in December 2014. The decrease in 2014 reflects the decline in shares outstanding resulting from repurchase activity, partially offset by dividend rate increases. In December 2015, our Board of Directors approved a 2.1% increase in the quarterly dividend from $0.47 to $0.48 per share. This follows a 2.2% dividend increase approved by our Board in December 2014. Dividends declared by our Board of Directors totaled $1.89 per share in 2015, $1.85 per share in 2014, and $1.81 per share in 2013. Our dividend policy considers the expectations and requirements of stockholders, capital funding requirements of AT&T and long-term growth opportunities. It is our intent to provide the financial flexibility to allow our Board of Directors to consider dividend growth and to recommend an increase in dividends to be paid in future periods. All dividends remain subject to declaration by our Board of Directors.

During 2015, we received net proceeds of $33,969 from the issuance of $34,129 in long-term debt in various markets, with an average weighted maturity of approximately 12 years and a weighted average coupon of 2.7%. Debt issued included:

- February 2015 issuance of $2,619 of 4.600% global notes due 2045.
- March 2015 borrowings under a variable rate term loan facility due 2018, variable rate term loan facility due

2020 and variable rate 18-month credit agreement due 2016, together totaling $11,155.

- March 2015 issuance of €1,250 of 1.300% global notes due 2023 and €1,250 of 2.450% global notes due 2035 (together, equivalent to $2,844, when issued).
- May 2015 issuance of $3,000 of 2.450% global notes due 2020; $2,750 of 3.000% global notes due 2022; $5,000 of 3.400% global notes due 2025; $2,500 of 4.500% global notes due 2035; $3,500 of 4.750% global notes due 2046; and $750 floating rate global notes due 2020. The floating rate for the note is based upon the three-month London Interbank Offered Rate (LIBOR), reset quarterly, plus 93 basis points.

During 2015, we redeemed $10,042 in debt, primarily consisting of the following repayments:

- Redemption of $902 of various senior notes in connection with the January 2015 GSF Telecom acquisition and April 2015 Nextel Mexico acquisition.
- April 2015 redemption of €1,250 (approximately $1,975 at maturity) of AT&T 6.125% notes due 2015.
- August 2015 redemption of $1,500 of AT&T 2.500% notes due August 2015.
- September 2015 redemption of $1,000 of 0.800% notes due December 2015; $1,000 of 0.900% AT&T notes due February 2016; $750 of 3.125% DIRECTV Holdings LLC and DIRECTV Financing Co., Inc. notes due February 2016; and $1,500 of 3.500% of DIRECTV senior notes due March 2016.
- September 2015 prepayment of $1,000 of the outstanding advances under the $2,000 18-month credit agreement (the “18-Month Credit Agreement”) by and between AT&T and Mizuho. (See the “Credit Facilities” discussion below.)

In 2015, we continued to take advantage of lower market interest rates and undertook several activities related to our long-term debt which caused our weighted average interest rate of our entire long-term debt portfolio, including the impact of derivatives, to decrease from 4.2% at December 31, 2014 to 4.0% at December 31, 2015. We had $124,847 of total notes and debentures outstanding (see Note 9) at December 31, 2015, which included Euro, British pound sterling, Swiss franc, Brazilian real and Canadian dollar denominated debt of approximately $26,221.

On February 9, 2016, we issued $6,000 of long-term debt which included:

- $1,250 of 2.800% global notes due 2021.
- $1,500 of 3.600% global notes due 2023.
- $1,750 of 4.125% global notes due 2026.
- $1,500 of 5.650% global notes due 2047.

At December 31, 2015, we had $7,636 of debt maturing within one year, substantially all of which was related to long-term debt issuances. Debt maturing within one year includes the following notes that may be put back to us by the holders:

- $1,000 of annual put reset securities issued by BellSouth Corporation that may be put back to us each April until maturity in 2021.
- An accreting zero-coupon note that may be redeemed each May until maturity in 2022. If the zero-coupon note (issued for principal of $500 in 2007) is held to maturity, the redemption amount will be $1,030.

Our Board of Directors has approved repurchase authorizations of 300 million shares each in 2013 and 2014 (see Note 14). For the year ended December 31, 2014, we had repurchased approximately 48 million shares totaling $1,617 under these authorizations and for the year ended December 31, 2015, we had repurchased approximately 8 million shares totaling $269 under these authorizations. At December 31, 2015 we had approximately 407 million shares remaining from the 2013 and 2014 authorizations.

The emphasis of our 2016 financing activities will be the issuance of debt, the payment of dividends, which is subject to approval by our Board of Directors, and the repayment of debt. We plan to fund our financing uses of cash through a combination of cash from operations, debt issuances and asset sales. The timing and mix of debt issuance will be guided by credit market conditions and interest rate trends.

Credit Facilities

On December 11, 2015, we entered into a five-year, $12,000 credit agreement (the “Revolving Credit Agreement”) with Citibank, N.A. (Citibank), as administrative agent, replacing our $5,000 credit agreement that would have expired in December 2018. At the same time, AT&T and the lenders terminated their obligations under the existing revolving $3,000 credit agreement with Citibank that would have expired in December 2017.

In January 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. We also entered into a $2,000 18-month credit agreement (the “18-Month Credit Agreement”) with Mizuho as initial lender and agent. On December 11, 2015, AT&T amended the Syndicated Credit Agreement and the 18-Month Credit Agreement to, among other things, revise the financial covenant to match the financial covenant in the Revolving Credit Agreement.

Revolving Credit Agreement

In the event advances are made under the Revolving Credit Agreement, 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 the 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. We also may request that the total amount of the lender's commitments be increased by an integral multiple of $25 effective on a date that is at least 90 days prior to the scheduled termination date then in effect, provided that no event of default has occurred and in no event shall the total amount of the lender's commitments at any time exceed $14,000. At December 31, 2015, we had no advances outstanding under the Revolving Credit Agreement and we have complied will all covenants.

The obligations of the lenders to provide advances will terminate on December 11, 2020, unless prior to that date either: (i) AT&T reduces 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, 2020, termination date, under certain circumstances.

Advances under the Revolving Credit Agreement would bear interest, at AT&T's option, either:

- at a variable annual rate equal to (1) the highest of: (a) the base rate of 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 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 Revolving Credit Agreement ("Applicable Margin for Base Advances"); or
- at a rate equal to: (i) LIBOR for a period of one, two, three or six months, as applicable, plus (ii) the Applicable Margin ("Applicable Margin for Eurocurrency Rate Advances").

The Applicable Margin for Eurocurrency Rate Advances will equal 0.680%, 0.910%, 1.025%, or 1.125% per annum, depending on AT&T's credit rating. The Applicable Margin for Base Rate Advances will be equal to the greater of 0.00% and the relevant Applicable Margin for Eurocurrency Rate Advances minus 1.00% per annum depending on AT&T's credit rating.

We will pay a facility fee of 0.070%, 0.090%, 0.100% or 0.125% per annum, depending on AT&T's credit rating, of the amount of lender commitments.

The Revolving Credit Agreement contains covenants that are customary for an issuer with an investment grade senior debt credit rating, as well as a net debt-to-EBITDA (earnings before interest, taxes, depreciation and amortization, and other modifications described in the Revolving Credit Agreement) financial ratio covenant that AT&T will maintain, as of the last day of each fiscal quarter, a ratio of not more than 3.5-to-1.

The Syndicated Credit Agreement

In March 2015, AT&T borrowed all amounts available under the Tranche A Facility and the Tranche B Facility. Amounts borrowed under the Tranche A Facility will be due on March 2, 2018. Amounts borrowed under the Tranche B Facility will be subject to amortization from March 2, 2018, with 25 percent of the aggregate principal amount thereof being payable prior to March 2, 2020, and all remaining principal amount due on March 2, 2020.

Advances bear interest 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 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 under the Tranche B Facility will equal 1.125%, 1.250% or 1.375% per annum, depending on AT&T's credit rating.

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 net 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 3.5-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

In March 2015, AT&T borrowed all amounts available under the 18-Month Credit Agreement. Amounts borrowed under the 18-Month Credit Agreement will be due and payable on September 2, 2016. In September 2015, we partially repaid the amount borrowed.

Advances bear interest 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). The Applicable Margin will equal 0.800%, 0.900% or 1.000% per annum, depending on AT&T's credit rating. 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.

Collateral Arrangements

During 2015, we posted $2,288 of additional cash collateral, on a net basis, to banks and other participants in our derivative arrangements. Cash postings under these arrangements vary with changes in credit ratings and netting agreements. (See Note 10)

Other

Our total capital consists of debt (long-term debt and debt maturing within one year) and stockholders' equity. Our capital structure does not include debt issued by our equity method investments. At December 31, 2015, our debt ratio was 50.5%, compared to 47.5% at December 31, 2014, and 44.1% at December 31, 2013. The debt ratio is affected by the same factors that affect total capital, and reflects the debt issued and acquired in 2015 and our issuance of treasury shares of AT&T common stock, and debt redemptions during 2015. Total capital increased $77,687 in 2015 compared to an increase of $2,905 in 2014. The 2015 capital increase was primarily due to use of treasury stock to acquire DIRECTV and an increase in debt balances, partially offset by a decrease in accumulated other comprehensive income due to foreign currency translation adjustments.

A significant amount of our cash outflows are related to tax items and benefits paid for current and former employees. Total taxes incurred, collected and remitted by AT&T during 2015, 2014, and 2013 were $21,501, $20,870 and $21,004. These taxes include income, franchise, property, sales, excise, payroll, gross receipts and various other taxes and fees. Total health and welfare benefits provided to certain active and retired employees and their dependents totaled $4,625 in 2015, with $1,239 paid from plan assets. Of those benefits, $3,749 related to medical and prescription drug benefits. During 2015, we paid $4,681 of pension benefits out of plan assets.

During 2015, we also received approximately $4,534 from monetization of various assets, primarily from our sales of certain equipment installment receivables and real estate holdings. We plan to continue to explore monetization opportunities in 2016.

In September 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC (Mobility), the holding company for our wireless business, to the trust used to pay pension benefits under our qualified pension plans. In September 2013, the U.S. Department of Labor (DOL) published a proposed exemption that authorized retroactive approval of this voluntary contribution. In July 2014, the DOL published in the Federal Register their final retroactive approval of our voluntary contribution.

The preferred equity interest had a fair value of $8,714 at December 31, 2015 and $9,104 on the contribution date and has a liquidation value of $8,000. The trust is entitled to receive cumulative cash distributions of $560 per annum, which are distributed quarterly in equal amounts and accounted for as contributions. We distributed $560 to the trust during 2015. 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, it is not reflected in plan assets in our consolidated financial statements and instead has been eliminated in consolidation. We also agreed to make a cash contribution to the trust of $175 no later than the due date of our federal income tax return for 2014, 2015 and 2016. The 2014 contribution of $175 was made to the trust during the second quarter of 2015. We are required to contribute another $175 in 2016 and $175 in 2017.

The preferred equity interest is not transferable by the trust except through its put and call features. 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 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 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.

Dollars in millions except per share amounts

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

Current accounting standards require us to disclose our material obligations and commitments to making future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees. We occasionally enter into third-party debt guarantees, but they are not, nor are they reasonably likely to become, material. We disclose our contractual long-term debt repayment obligations in Note 9 and our operating lease payments in Note 6. Our contractual obligations do not include contributions associated with our voluntary contribution of the Mobility preferred equity interest, or expected pension and postretirement payments (we maintain pension funds and Voluntary Employee Beneficiary Association trusts to fully or partially fund these benefits) (see Note 12). In the ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, such as fixed assets, inventory and office supplies. However, we do not believe that the commitments will have a material effect on our financial condition, results of operations or cash flows.

Our contractual obligations as of December 31, 2015, are in the following table. The purchase obligations that follow are those for which we have guaranteed funds and will be funded with cash provided by operations or through incremental borrowings. The minimum commitment for certain obligations is based on termination penalties that could be paid to exit the contract. Other long-term liabilities are included in the table based on the year of required payment or an estimate of the year of payment. Such estimate of payment is based on a review of past trends for these items, as well as a forecast of future activities. Certain items were excluded from the following table, as the year of payment is unknown and could not be reliably estimated since past trends were not deemed to be an indicator of future payment.

Substantially all of our purchase obligations are in our Business Solutions, Entertainment Group, and the Consumer Mobility segments. The table does not include the fair value of our interest rate swaps. Our capital lease obligations and vendor financing have been excluded from the table due to the insignificant amounts of such obligations at December 31, 2015. Many of our other noncurrent liabilities have been excluded from the following table due to the uncertainty of the timing of payments, combined with the absence of historical trending to be used as a predictor of such payments. Additionally, certain other long-term liabilities have been excluded since settlement of such liabilities will not require the use of cash. Our other long-term liabilities are: deferred income taxes (see Note 11) of $56,181; postemployment benefit obligations of $34,262; and other noncurrent liabilities of $22,258.

Contractual Obligations

		Payments Due By Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations[1]	$129,443	$ 7,383	$20,847	$17,322	$ 83,891
Interest payments on long-term debt	80,171	5,235	10,046	8,761	56,129
Finance obligations[2]	3,575	234	482	502	2,357
Operating lease obligations	28,845	3,775	6,808	5,774	12,488
Unrecognized tax benefits[3]	4,918	867	—	—	4,051
Purchase obligations[4]	48,699	22,929	9,437	6,159	10,174
Total Contractual Obligations	$295,651	$40,423	$47,620	$38,518	$169,090

[1] Represents principal or payoff amounts of notes and debentures at maturity or, for putable debt, the next put opportunity.
[2] Represents future minimum payments under the Crown Castle and other arrangements (see Note 16).
[3] The noncurrent portion of the UTBs is included in the "More than 5 Years" column, as we cannot reasonably estimate the timing or amounts of additional cash payments, if any, at this time. See Note 11 for additional information.
[4] We calculated the minimum obligation for certain agreements to purchase goods or services based on termination fees that can be paid to exit the contract. If we elect to exit these contracts, termination fees for all such contracts in the year of termination could be approximately $690 in 2016, $925 in the aggregate for 2017 and 2018, $431 in the aggregate for 2019 and 2020, and $241 in the aggregate thereafter. Certain termination fees are excluded from the above table, as the fees would not be paid every year and the timing of such payments, if any, is uncertain.

MARKET RISK

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

Interest Rate Risk

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

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

Following are our interest rate derivatives subject to material interest rate risk as of December 31, 2015. The interest rates illustrated below refer to the average rates we expect to pay based on current and implied forward rates and the average rates we expect to receive based on derivative contracts. The notional amount is the principal amount of the debt subject to the interest rate swap contracts. The fair value asset (liability) represents the amount we would receive (pay) if we had exited the contracts as of December 31, 2015.

	Maturity							
	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value 12/31/15
Interest Rate Derivatives								
Interest Rate Swaps:								
Receive Fixed/Pay Variable Notional Amount Maturing	$ —	$ 700	$3,000	$3,350	$ —	$ —	$7,050	$136
Weighted-Average Variable Rate Payable[1]	3.4%	4.0%	4.5%	3.8%	—	—		
Weighted-Average Fixed Rate Receivable	4.5%	4.5%	4.5%	3.5%	—	—		

[1] Interest payable based on current and implied forward rates for One, Three, or Six Month LIBOR plus a spread ranging between approximately 14 and 425 basis points.

Foreign Exchange Risk

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

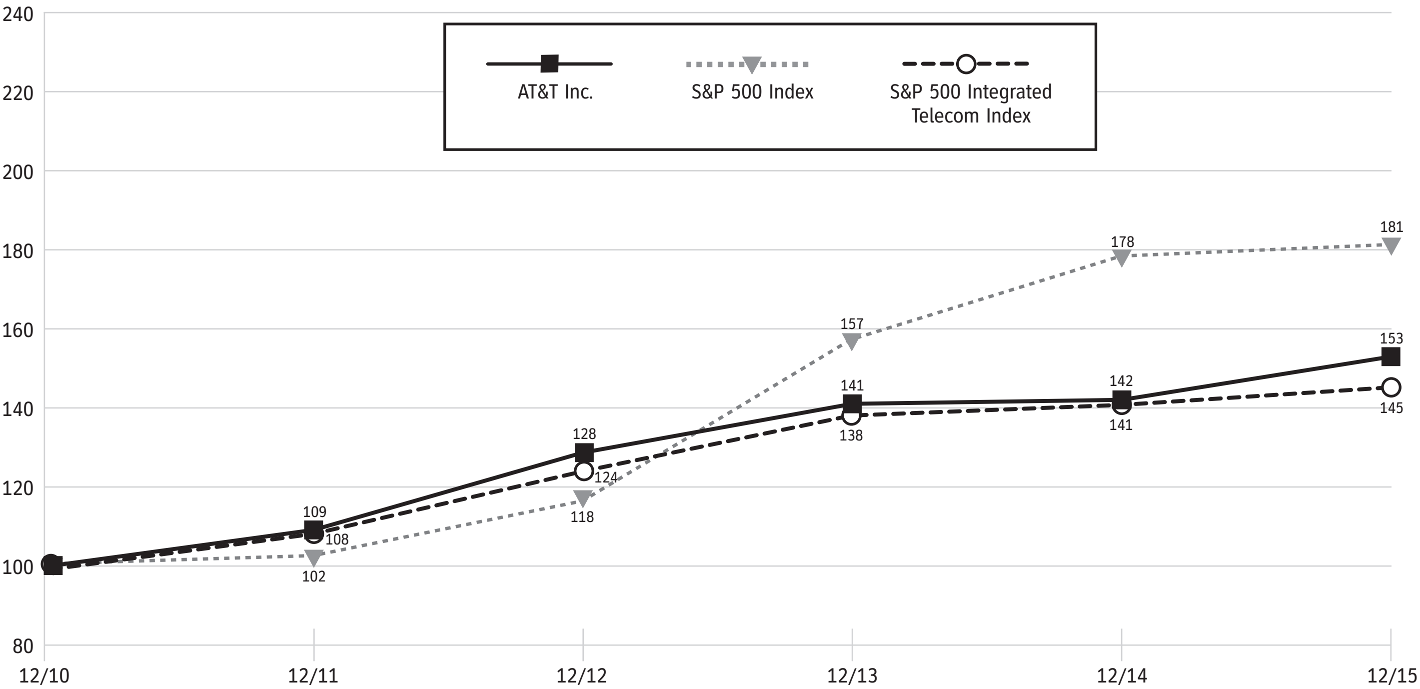
Through cross-currency swaps, most of our foreign-denominated debt has been swapped from fixed-rate or floating-rate foreign currencies to fixed-rate U.S. dollars at issuance, removing interest rate risk and foreign currency exchange risk associated with the underlying interest and principal payments.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

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

For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of a hypothetical 10% fluctuation of the U.S. dollar against foreign currencies from the prevailing foreign currency exchange rates, assuming no change in interest rates. We have foreign exchange forward contracts, maturing on February 25, 2016, held by our GSF Telecom and Nextel Mexico subsidiaries (AT&T Telecom Holdings S. de R.L. de C.V. & AT&T Comunicaciones Digitales S. de R.L. de C.V.).

STOCK PERFORMANCE GRAPH

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



The comparison above assumes $100 invested on December 31, 2010, in AT&T common stock, Standard & Poor's 500 Index (S&P 500), and Standard & Poor's 500 Integrated Telecom Index (S&P 500 Integrated Telecom). Total return equals stock price appreciation plus reinvestment of dividends.

RISK FACTORS

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

The current U.S. economy has changed our customers' buying habits and a failure to adequately respond could materially adversely affect our business.

We provide services and products predominantly to consumers and large and small businesses in the United States. We also provide services to larger businesses throughout the world. The current uneven economic recovery in the United States continues to pressure some of our customers' demand for and ability to pay for existing services, especially wired services, including video, and their interest in purchasing new services. Customers are changing their buying habits in response to both ongoing economic conditions and technological advances. Should we fail to respond promptly to address these changes in customer demands, we are likely to experience greater pressure on pricing and margins as we continue to compete for customers who would have even less discretionary income.

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

Our costs to provide current benefits and funding for future benefits are subject to increases, primarily due to continuing increases in medical and prescription drug costs, and can be affected by lower returns on funds held by our pension and other benefit plans, which are reflected in our financial statements for that year. Investment returns on these funds depend largely on trends in the U.S. securities markets and the U.S. economy. We have experienced historically low interest rates during the last several years. While annual market returns and increased volatility have pressured asset returns in the short-term, we expect long-term market returns to stabilize. During 2015, the overall bond rates increased, which results in lower benefit obligations. In calculating the costs included on our financial statements of providing benefits under our plans, we have made certain assumptions regarding future investment returns, medical costs and interest rates. While we have made some changes to the benefit plans to limit our risk from increasing medical costs, if actual investment returns, medical costs and interest rates are worse than those previously assumed, our costs will increase.

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

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

While the global financial markets were generally stable during 2015, a continuing uncertainty surrounding global growth rates has resulted in increasing volatility in the credit, currency, equity and fixed income markets. Volatility in some areas, such as in emerging markets, may affect companies' access to the credit markets, leading to higher borrowing costs for companies or, in some cases, the inability of these companies to fund their ongoing operations. In addition, we contract with large financial institutions to support our own treasury operations, including contracts to hedge our exposure on interest rates and foreign exchange and the funding of credit lines and other short-term debt obligations, including commercial paper. These financial institutions also face stricter capital-related and other regulations in the United States and Europe, as well as ongoing legal and financial issues concerning their loan portfolios, which may hamper their ability to provide credit or raise the cost of providing such credit. A company's cost of borrowing is also affected by evaluations given by various credit rating agencies and these agencies have been applying tighter credit standards when evaluating a company's debt levels and future growth prospects. While we have been successful in continuing to access the credit and fixed income markets when needed, adverse changes in the financial markets could render us either unable to access these markets or able to access these markets only at higher interest costs and with restrictive financial or other conditions, severely affecting our business operations.

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

The communications and digital entertainment industry has experienced rapid changes in the past several years. The development of wireless, cable and IP technologies has significantly increased the commercial viability of alternatives to traditional wired service and enhanced the capabilities of wireless networks. In addition, our customers continue to increase demand for services that can be accessed on mobile devices, especially video services. While our customers can use their traditional video subscription to access mobile programming, an increasing number of customers are also using mobile devices as the sole means of viewing video and an increasing number of non-traditional video providers are developing content and technologies to satisfy that demand. In order to remain competitive, we continue to deploy the sophisticated wired and wireless networks, including satellites, as well as research other new technologies. If the new technologies we have adopted or on which we have focused our research efforts fail to be cost-effective and accepted by customers, our ability to remain competitive could be materially adversely affected.

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

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

Continuing growth in our wireless services will depend on continuing access to adequate spectrum, deployment of new technology and offering attractive services to customers.

The wireless industry is undergoing rapid and significant technological changes and a dramatic increase in usage, in particular demand for and usage of data, video and other non-voice services. We must continually invest in our wireless network in order to continually improve our wireless service to meet this increasing demand and remain competitive. Improvements in our service depend on many factors, including continued access to and deployment of adequate spectrum. We must maintain and expand our network capacity and coverage as well as the associated wireline network needed to transport voice and data between cell sites. To this end, we have participated in spectrum auctions, at increasing financial cost, and continue to deploy technology advancements in order to further improve network quality and the efficient use of our spectrum.

Network service enhancements and product launches may not occur as scheduled or at the cost expected due to many factors, including delays in determining equipment and handset operating standards, supplier delays, increases in network equipment and handset component costs, regulatory permitting delays for tower sites or enhancements or labor-related delays. Deployment of new technology also may adversely affect the performance of the network for existing services. If the FCC does not fairly allocate sufficient spectrum to allow the wireless industry in general, and the Company in particular, to increase its capacity or if we cannot acquire needed spectrum or deploy the services customers desire on a timely basis without burdensome conditions or at adequate cost while maintaining network quality levels, then our ability to attract and retain customers, and therefore maintain and improve our operating margins, could be materially adversely affected.

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

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

Increasing costs to provide services could adversely affect operating margins.

Our operating costs, including customer acquisition and retention costs could continue to put pressure on margins and customer retention levels. In addition, virtually all our video programming is provided by other companies and historically the rates they charge us for programming have often increased more than the rate of inflation. We are attempting to use our increased scale and access to wireless customers to change this trend but such negotiations are difficult and also may result in programming disruption. If we are unable to restrain these costs or provide programming desired by our customers it could impact margins and our ability to attract and retain customers.

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

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

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

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

Cyber attacks, major equipment failures or natural disasters, including severe weather, terrorist acts or other breaches of network or IT security that affect our wireline and wireless networks, including telephone switching offices, microwave links, third-party-owned local and long-distance networks on which we rely, our cell sites or other equipment, our video satellites, our customer account support and information systems, or employee and business records could have a material adverse effect on our operations. While we have been subject to security breaches or cyber attacks, these did not result in a material adverse effect on our operations. However, as such attacks continue to increase in scope and frequency, we may be unable to prevent a significant attack in the future. Our ability to maintain and upgrade our video programming also depends on our ability to successfully deploy and operate video satellites. Our inability to deploy or operate our wireline, wireless, satellite or customer or employee-related support systems as a result of such events, even for a limited time period, could result in significant expenses, potential legal liability or a loss of customers or impair our ability to attract new customers, and damage our reputation, any of which could have a material adverse effect on our business, results of operations and financial condition.

Our failure to successfully integrate our July 2015 acquisition of DIRECTV, including our failure to achieve the cost savings and any other synergies from the acquisition either on schedule or in the amounts expected; the potential adverse effects on our dividend amount due to the issuance of additional shares and the addition of acquisition-related debt to our balance sheet; disruption from the acquisition making it more difficult to maintain relationships with customers, employees or suppliers; and competition and its effect on pricing, spending, third-party relationships and revenues, all may materially adversely affect our operating results.
We completed our acquisition of DIRECTV in July 2015. We believe that the acquisition will give us the scale, resources and ability to deploy video services to more customers than otherwise possible and to provide an integrated bundle of broadband, video and wireless services enabling us to compete more effectively against cable operators as well as other technology, media and communications companies. In addition, we believe the acquisition will result in cost savings, especially in the area of video content costs, and other potential synergies, enabling us to expand and enhance our broadband deployment and provide more video options across multiple fixed and mobile devices. We must comply with various regulatory conditions and integrate a large number of video network and other operational systems and administrative systems. The integration process may also result in significant expenses and charges against earnings, both cash and noncash. While we have successfully merged large companies into our operations in the past, delays in the process could have a material adverse effect on our revenues, expenses, operating results and financial condition. This acquisition has increased the amount of debt on our balance sheet (both from DIRECTV's debt and the indebtedness needed to pay a portion of the purchase price) leading to additional interest expense and, due to additional shares being issued, will result in additional cash being required for any dividends declared. Both of these factors could put pressure on our financial flexibility to continue capital investments, develop new services and declare future dividends. In addition, events outside of our control, including changes in regulation and laws as well as economic trends, could adversely affect our ability to realize the expected benefits from this acquisition.

The acquisitions of DIRECTV, GSF Telecom and Nextel Mexico will increase our exposure to both changes in the international economy and to the level of regulation on our business and these risks could offset our expected growth opportunities from these acquisitions.
These three acquisitions will increase the magnitude of our international operations, particularly in Mexico and the rest of Latin America. We will need to comply with a wide variety of new and complex local laws, regulations and treaties and government involvement in private business activity. We will also be exposed to restrictions on cash repatriation, foreign exchange controls, fluctuations in currency values, trade restrictions and other regulations that may affect materially our earnings. While the countries involved represent significant opportunities to sell our advanced services, a number of these same countries have experienced unstable growth patterns and at times have experienced high inflation, currency devaluation, foreign exchange controls, instability in the banking sector and high unemployment. Should these conditions persist, customers in these countries may be unable to purchase the services we offer or pay for services already provided.

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

Increases in our debt levels to fund acquisitions, additional spectrum purchases, or other strategic decisions could adversely affect our ability to finance future debt at attractive rates and reduce our ability to respond to competition and adverse economic trends.
We have increased the amount of our debt during 2014 and 2015 to fund acquisitions, including spectrum purchases needed to compete in our business. While we believe such decisions were prudent and necessary to take advantage of both growth opportunities and respond to industry developments, we experienced a credit-rating downgrade. Banks and potential purchasers of our publicly-traded debt may decide that these strategic decisions and similar actions we may take in the future, as well as expected trends in the industry, will continue to increase the risk of investing in our debt and may demand a higher rate of interest, impose restrictive covenants or otherwise limit the amount of potential borrowing.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

Consolidated Statements of Income

Dollars in millions except per share amounts

	2015	2014	2013
		As Adjusted	
Operating Revenues			
Service	**$131,677**	$118,437	$119,252
Equipment	**15,124**	14,010	9,500
Total operating revenues	**146,801**	132,447	128,752
Operating Expenses			
Cost of services and sales			
Equipment	**19,268**	18,946	16,644
Broadcast, programming and operations	**11,996**	4,075	3,308
Other cost of services (exclusive of depreciation and amortization shown separately below)	**35,782**	37,124	31,239
Selling, general and administrative	**32,954**	39,697	28,414
Abandonment of network assets	**—**	2,120	—
Depreciation and amortization	**22,016**	18,273	18,395
Total operating expenses	**122,016**	120,235	98,000
Operating Income	**24,785**	12,212	30,752
Other Income (Expense)			
Interest expense	**(4,120)**	(3,613)	(3,940)
Equity in net income of affiliates	**79**	175	642
Other income (expense) – net	**(52)**	1,581	596
Total other income (expense)	**(4,093)**	(1,857)	(2,702)
Income Before Income Taxes	**20,692**	10,355	28,050
Income tax expense	**7,005**	3,619	9,328
Net Income	**13,687**	6,736	18,722
Less: Net Income Attributable to Noncontrolling Interest	**(342)**	(294)	(304)
Net Income Attributable to AT&T	**$ 13,345**	$ 6,442	$ 18,418
Basic Earnings Per Share Attributable to AT&T	**$ 2.37**	$ 1.24	$ 3.42
Diluted Earnings Per Share Attributable to AT&T	**$ 2.37**	$ 1.24	$ 3.42

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

Consolidated Statements of Comprehensive Income

Dollars in millions

	2015	2014	2013
		As Adjusted	
Net income	**$13,687**	$6,736	$18,722
Other comprehensive income, net of tax:			
Foreign Currency:			
Translation adjustments (includes $(16), $0 and $(2) attributable to noncontrolling interest), net of taxes of $(595), $(45) and $(78)	**(1,188)**	(75)	(140)
Reclassification adjustment included in net income, net of taxes of $0, $224 and $30	**—**	416	55
Available-for-sale securities:			
Net unrealized gains, net of taxes of $0, $40, and $137	**—**	65	258
Reclassification adjustment included in net income, net of taxes of $(9), $(10) and $(42)	**(15)**	(16)	(79)
Cash flow hedges:			
Net unrealized (losses) gains, net of taxes of $(411), $140 and $286	**(763)**	260	525
Reclassification adjustment included in net income, net of taxes of $20, $18 and $16	**38**	36	30
Defined benefit postretirement plans:			
Amortization of net prior service credit included in net income, net of taxes of $(523), $(588) and $(480)	**(860)**	(959)	(782)
Net prior service credit arising during period, net of taxes of $27, $262 and $1,695	**45**	428	2,765
Reclassification adjustment included in net income, net of taxes of $0, $11 and $7	**—**	26	11
Other comprehensive income (loss)	**(2,743)**	181	2,643
Total comprehensive income	**10,944**	6,917	21,365
Less: Total comprehensive income attributable to noncontrolling interest	**(326)**	(294)	(302)
Total Comprehensive Income Attributable to AT&T	**$10,618**	$6,623	$21,063

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

Consolidated Balance Sheets

Dollars in millions except per share amounts

	December 31, 2015	December 31, 2014 As Adjusted
Assets		
Current Assets		
Cash and cash equivalents	**$ 5,121**	$ 8,603
Accounts receivable – net of allowances for doubtful accounts of $704 and $454	**16,532**	14,527
Prepaid expenses	**1,072**	831
Other current assets	**13,267**	9,645
Total current assets	**35,992**	33,606
Property, Plant and Equipment – Net	**124,450**	112,898
Goodwill	**104,568**	69,692
Licenses	**93,093**	60,824
Customer Lists and Relationships – Net	**18,208**	812
Other Intangible Assets – Net	**9,409**	5,327
Investments in Equity Affiliates	**1,606**	250
Other Assets	**15,346**	13,425
Total Assets	**$402,672**	$296,834
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 7,636**	$ 6,056
Accounts payable and accrued liabilities	**30,372**	23,592
Advanced billings and customer deposits	**4,682**	4,105
Accrued taxes	**2,176**	1,091
Dividends payable	**2,950**	2,438
Total current liabilities	**47,816**	37,282
Long-Term Debt	**118,515**	75,778
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**56,181**	38,436
Postemployment benefit obligation	**34,262**	37,079
Other noncurrent liabilities	**22,258**	17,989
Total deferred credits and other noncurrent liabilities	**112,701**	93,504
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2015 and 2014: issued 6,495,231,088 at December 31, 2015 and 2014)	**6,495**	6,495
Additional paid-in capital	**89,763**	91,108
Retained earnings	**33,671**	31,081
Treasury stock (350,291,239 at December 31, 2015 and 1,308,318,131 at December 31, 2014, at cost)	**(12,592)**	(47,029)
Accumulated other comprehensive income	**5,334**	8,061
Noncontrolling interest	**969**	554
Total stockholders' equity	**123,640**	90,270
Total Liabilities and Stockholders' Equity	**$402,672**	$296,834

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

Consolidated Statements of Cash Flows

Dollars in millions

	2015	2014	2013
		As Adjusted	
Operating Activities			
Net income	**$ 13,687**	$ 6,736	$ 18,722
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**22,016**	18,273	18,395
Undistributed earnings from investments in equity affiliates	**(49)**	(27)	(324)
Provision for uncollectible accounts	**1,416**	1,032	954
Deferred income tax expense	**4,117**	1,948	6,345
Net loss (gain) from sale of investments, net of impairments	**91**	(1,461)	(492)
Actuarial (gain) loss on pension and postretirement benefits	**(2,152)**	7,869	(7,584)
Abandonment of network assets	**—**	2,120	—
Changes in operating assets and liabilities:			
Accounts receivable	**(535)**	(2,651)	(1,329)
Other current assets	**(1,789)**	(974)	445
Accounts payable and accrued liabilities	**1,291**	2,412	(152)
Retirement benefit funding	**(735)**	(560)	(209)
Other – net	**(1,478)**	(3,379)	25
Total adjustments	**22,193**	24,602	16,074
Net Cash Provided by Operating Activities	**35,880**	31,338	34,796
Investing Activities			
Construction and capital expenditures:			
Capital expenditures	**(19,218)**	(21,199)	(20,944)
Interest during construction	**(797)**	(234)	(284)
Acquisitions, net of cash acquired	**(30,759)**	(3,141)	(4,113)
Dispositions	**83**	8,123	1,923
Sales (purchases) of securities, net	**1,545**	(1,890)	—
Return of advances to and investments in equity affiliates	**1**	4	301
Other	**1**	—	(7)
Net Cash Used in Investing Activities	**(49,144)**	(18,337)	(23,124)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**(1)**	(16)	20
Issuance of other short-term borrowings	**—**	—	1,476
Repayment of other short-term borrowings	**—**	—	(1,476)
Issuance of long-term debt	**33,969**	15,926	12,040
Repayment of long-term debt	**(10,042)**	(10,400)	(7,698)
Issuance of other long-term financing obligations	**—**	107	4,796
Purchase of treasury stock	**(269)**	(1,617)	(13,028)
Issuance of treasury stock	**143**	39	114
Dividends paid	**(10,200)**	(9,552)	(9,696)
Other	**(3,818)**	(2,224)	251
Net Cash Provided by (Used in) Financing Activities	**9,782**	(7,737)	(13,201)
Net (decrease) increase in cash and cash equivalents	**(3,482)**	5,264	(1,529)
Cash and cash equivalents beginning of year	**8,603**	3,339	4,868
Cash and Cash Equivalents End of Year	**$ 5,121**	$ 8,603	$ 3,339

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

Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2015		2014		2013	
	Shares	**Amount**	Shares	Amount	Shares	Amount
			As Adjusted			
Common Stock						
Balance at beginning of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Issuance of stock	**—**	**—**	—	—	—	—
Balance at end of year	**6,495**	**$ 6,495**	6,495	$ 6,495	6,495	$ 6,495
Additional Paid-In Capital						
Balance at beginning of year		**$ 91,108**		$ 91,091		$ 91,038
Issuance of treasury stock		**(1,597)**		4		(8)
Share-based payments		**252**		47		62
Change related to acquisition of interests held by noncontrolling owners		**—**		(34)		(1)
Balance at end of year		**$ 89,763**		$ 91,108		$ 91,091
Retained Earnings						
Balance at beginning of year		**$ 31,081**		$ 34,269		$ 25,440
Net income attributable to AT&T ($2.37, $1.24 and $3.42 per diluted share)		**13,345**		6,442		18,418
Dividends to stockholders ($1.89, $1.85 and $1.81 per share)		**(10,755)**		(9,630)		(9,589)
Balance at end of year		**$ 33,671**		$ 31,081		$ 34,269
Treasury Stock						
Balance at beginning of year	**(1,308)**	**$ (47,029)**	(1,269)	$(45,619)	(914)	$(32,888)
Repurchase of common stock	**(8)**	**(278)**	(48)	(1,617)	(366)	(13,028)
Issuance of treasury stock	**966**	**34,715**	9	207	11	297
Balance at end of year	**(350)**	**$ (12,592)**	(1,308)	$(47,029)	(1,269)	$(45,619)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:						
Balance at beginning of year		**$ 8,061**		$ 7,880		$ 5,235
Other comprehensive income (loss) attributable to AT&T		**(2,727)**		181		2,645
Balance at end of year		**$ 5,334**		$ 8,061		$ 7,880
Noncontrolling Interest:						
Balance at beginning of year		**$ 554**		$ 494		$ 333
Net income attributable to noncontrolling interest		**342**		294		304
Distributions		**(294)**		(233)		(231)
Contributions		**—**		—		51
Acquisitions of noncontrolling interests		**383**		69		44
Acquisition of interests held by noncontrolling owners		**—**		(70)		(5)
Translation adjustments attributable to noncontrolling interest, net of taxes		**(16)**		—		(2)
Balance at end of year		**$ 969**		$ 554		$ 494
Total Stockholders' Equity at beginning of year		**$ 90,270**		$ 94,610		$ 95,653
Total Stockholders' Equity at end of year		**$123,640**		$ 90,270		$ 94,610

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