

Notes to Consolidated Financial Statements

Dollars in millions except per share amounts

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates. Our subsidiaries and affiliates operate in the communications services industry both domestically and internationally, providing wireless communications services, local exchange services, long-distance services, data/broadband and Internet services, video services, telecommunications equipment, managed networking and wholesale services. During 2012, we sold our Advertising Solutions segment (see Note 4).

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships and less than majority-owned subsidiaries where we have significant influence are accounted for under the equity method. Earnings from certain foreign equity investments accounted for using the equity method are included for periods ended within up to one month of our year end (see Note 7). We also record our proportionate share of our equity method investees' other comprehensive income (OCI) items, including actuarial gains and losses on pension and other postretirement benefit obligations.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. We have reclassified and reallocated certain amounts in prior-period financial statements to conform to the current period's presentation, including a reclassification and realignment of certain operating expenses based on an enhanced activity-based expense tracking system.

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

We report, on a net basis, taxes imposed by governmental authorities on revenue-producing transactions between us and our customers in our consolidated statements of income.

Cash and Cash Equivalents Cash and cash equivalents include all highly-liquid investments with original maturities of three months or less. The carrying amounts approximate fair value. At December 31, 2012, we held \$482 in cash and \$4,386 in money market funds and other cash equivalents.

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

We record an estimated revenue reduction for future adjustments to customer accounts, other than bad debt expense, at the time revenue is recognized based on historical experience. Service revenues also include billings to our customers for various regulatory fees imposed on us by governmental authorities. Cash incentives given to customers are recorded as a reduction of revenue. When required as part of providing service, revenues and associated expenses related to nonrefundable, upfront service activation and setup fees are deferred and recognized over the associated service contract period or customer life. Associated expenses are deferred only to the extent of such deferred revenue. For contracts that involve the bundling of services, revenue is allocated to the services based on their relative selling price, subject to the requirement that revenue recognized is limited to the amounts already received from the customer that are not contingent upon the delivery of additional products or services to the customer in the future. We record the sale of equipment to customers as gross revenue when we are the primary obligor in the arrangement, when title is passed and when the products are accepted by customers. For agreements involving the resale of third-party services in which we are not considered the primary obligor of the arrangement, we record the revenue net of the associated costs incurred. For contracts in which we provide customers with an infeasible right to use network capacity, we recognize revenue ratably over the stated life of the agreement.

Traffic Compensation Expense We use various estimates and assumptions to determine the amount of traffic compensation expenses recognized during any reporting period. Switched traffic compensation costs are accrued utilizing estimated rates and volumes by product, formulated from historical data and adjusted for known rate changes. Such estimates are adjusted monthly to reflect newly available information, such as rate changes and new contractual agreements. Bills reflecting actual incurred information are generally not received within three months subsequent to the

end of the reporting period, at which point a final adjustment is made to the accrued switched traffic compensation expense. Dedicated traffic compensation costs are estimated based on the number of circuits and the average projected circuit costs.

Allowance for Doubtful Accounts We record an 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 of accounts receivable based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts receivable balances with allowances generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes.

Inventory Inventories, which are included in "Other current assets" on our consolidated balance sheets, were \$1,036 at December 31, 2012, and \$1,188 at December 31, 2011. Wireless handsets and accessories, which are valued at the lower of cost or market (determined using current replacement cost) were \$888 as of December 31, 2012, and \$1,082 as of December 31, 2011. The remainder of our inventory includes new and reusable supplies and network equipment of our local telephone operations, which are stated principally at average original cost, or specific costs in the case of large individual items. Inventories of our other subsidiaries are stated at the lower of cost or market.

Property, Plant and Equipment Property, plant and equipment is stated at cost, except for assets acquired using acquisition accounting, which are initially recorded at fair value (see Note 5). The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment costs are depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology. Accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation, and no gain or loss is recognized on the disposition of these assets.

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

undiscounted cash flows expected to result from the use and eventual disposition of the asset.

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

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

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

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

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

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

a discounted cash flow approach on a presumed royalty rate derived from the revenues related to the brand name. The fair value measurements used are considered Level 3 under the Fair Value Measurement and Disclosure framework (see Note 9).

Intangible assets that have finite useful lives are amortized over their useful lives (see Note 6). Customer lists and relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the expected period in which those relationships are expected to contribute to our future cash flows. The remaining finite-lived intangible assets are generally amortized using the straight-line method of amortization.

Advertising Costs We expense advertising costs for advertising products and services or for promoting our corporate image as we incur them (see Note 14).

Foreign Currency Translation We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. Our foreign subsidiaries and foreign investments generally report their earnings in their local currencies. We translate our share of their foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate our share of their revenues and expenses using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income (accumulated OCI) in the accompanying consolidated balance sheets. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a portion of the foreign currency exchange risk involved in anticipation of highly probable foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 9).

Employee Separations We established obligations for expected termination benefits provided under existing plans to former or inactive employees after employment but before retirement. At December 31, 2012, we had severance accruals of \$120 and at December 31, 2011, we had severance accruals of \$335. The decline was primarily due to payments during the year.

Pension and Other Postretirement Benefits See Note 11 for a comprehensive discussion of our pension and postretirement benefit expense, including a discussion of the actuarial assumptions and our policy for recognizing the associated gains and losses.

NOTE 2. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income from continuing operations for the years ended December 31, 2012, 2011 and 2010, are shown in the table below:

Year Ended December 31,	2012	2011	2010
Numerators			
Numerator for basic earnings per share:			
Income from continuing operations	\$7,539	\$4,184	\$19,400
Income attributable to noncontrolling interest	(275)	(240)	(315)
Income from continuing operations attributable to AT&T	7,264	3,944	19,085
Dilutive potential common shares:			
Other share-based payment	12	11	11
Numerator for diluted earnings per share	\$7,276	\$3,955	\$19,096
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	5,801	5,928	5,913
Dilutive potential common shares:			
Stock options	3	4	3
Other share-based payment (in shares)	17	18	22
Denominator for diluted earnings per share	5,821	5,950	5,938
Basic earnings per share from continuing operations attributable to AT&T	\$ 1.25	\$ 0.66	\$ 3.23
Basic earnings per share from discontinued operations attributable to AT&T	—	—	0.13
Basic earnings per share attributable to AT&T	\$ 1.25	\$ 0.66	\$ 3.36
Diluted earnings per share from continuing operations attributable to AT&T	\$ 1.25	\$ 0.66	\$ 3.22
Diluted earnings per share from discontinued operations attributable to AT&T	—	—	0.13
Diluted earnings per share attributable to AT&T	\$ 1.25	\$ 0.66	\$ 3.35

At December 31, 2012, 2011 and 2010, we had issued and outstanding options to purchase approximately 17 million, 66 million, and 130 million shares of AT&T common stock. The exercise prices of 3 million, 40 million, and 100 million shares in 2012, 2011, and 2010 were above the average market price of AT&T stock for the respective periods. Accordingly, we did not include these amounts in determining the dilutive potential common shares. At December 31, 2012, the exercise prices of 14 million vested stock options were below market price.

NOTE 3. SEGMENT INFORMATION

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. We analyze our operating segments based on segment income before income taxes. We make our capital allocation decisions based on our strategic direction of the business, needs of the network (wireless or wireline) providing services and other assets needed to provide emerging services to our customers. Actuarial gains and losses from pension and other postemployment benefits, interest expense and other income (expense) – net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in each segment's reportable results. The customers and long-lived assets of our reportable segments are predominantly in the United States. At December 31, 2012, we had three reportable segments: (1) Wireless, (2) Wireline and (3) Other. Our operating results prior to May 9, 2012, also included Advertising Solutions, which was a reportable segment. On May 8, 2012, we completed the sale of our Advertising Solutions segment and received a 47 percent equity interest in the new entity YP Holdings LLC (YP Holdings) (see Note 4).

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless voice and advanced data communications services. This segment includes our portion of the results from our mobile payment joint venture marketed as the Isis Mobile Wallet™ (ISIS), which is accounted for as an equity investment.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, AT&T U-verse® high-speed broadband, video and voice services and managed networking to business customers. Additionally, we receive commissions on sales of satellite television services offered through our agency arrangements. The Wireline segment results have been reclassified to exclude the operating results of the home monitoring business moved to our Other segment and to include the operating results of customer information services, which were previously reported in our Other segment's results.

The Advertising Solutions segment included our directory operations, which published Yellow and White Pages directories and sold directory advertising and Internet-based advertising and local search through May 8, 2012 (see Note 4).

The Other segment includes our portion of the results from our international equity investments, our 47 percent equity interest in YP Holdings, and costs to support corporate-driven activities and operations. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated. The Other segment results have been reclassified to exclude the operating results of customer information services, which are now reported in our Wireline segment's results.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

In the following tables, we show how our segment results are reconciled to our consolidated results reported.

Segment Results, including a reconciliation to AT&T consolidated results, for 2012, 2011, and 2010 are as follows:

At December 31, 2012 and for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Total segment operating revenues	\$ 66,763	\$ 59,567	\$ 1,049	\$ 55	\$ —	\$ 127,434
Operations and support expenses	43,296	41,207	773	1,024	9,994	96,294
Depreciation and amortization expenses	6,873	11,123	106	41	—	18,143
Total segment operating expenses	50,169	52,330	879	1,065	9,994	114,437
Segment operating income (loss)	16,594	7,237	170	(1,010)	(9,994)	12,997
Interest expense	—	—	—	—	3,444	3,444
Equity in net income (loss) of affiliates	(62)	(2)	—	816	—	752
Other income (expense) – net	—	—	—	—	134	134
Segment income (loss) before income taxes	\$ 16,532	\$ 7,235	\$ 170	\$ (194)	\$ (13,304)	\$ 10,439
Segment Assets	\$ 132,556	\$ 134,386	\$ —	\$ 10,728	\$ (5,355)	\$ 272,315
Investments in and advances to equity method affiliates	41	—	—	4,540	—	4,581
Expenditures for additions to long-lived assets	10,795	8,914	13	6	—	19,728

At December 31, 2011 and for the year ended	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Total segment operating revenues	\$ 63,215	\$ 60,140	\$ 3,293	\$ 75	\$ —	\$ 126,723
Operations and support expenses	41,282	41,360	5,175	5,031	6,280	99,128
Depreciation and amortization expenses	6,329	11,615	386	47	—	18,377
Total segment operating expenses	47,611	52,975	5,561	5,078	6,280	117,505
Segment operating income (loss)	15,604	7,165	(2,268)	(5,003)	(6,280)	9,218
Interest expense	—	—	—	—	3,535	3,535
Equity in net income (loss) of affiliates	(29)	—	—	813	—	784
Other income (expense) – net	—	—	—	—	249	249
Segment income (loss) before income taxes	\$ 15,575	\$ 7,165	\$ (2,268)	\$ (4,190)	\$ (9,566)	\$ 6,716
Segment Assets	\$ 127,466	\$ 133,904	\$ 2,982	\$ 10,530	\$ (4,440)	\$ 270,442
Investments in and advances to equity method affiliates	20	—	—	3,698	—	3,718
Expenditures for additions to long-lived assets	9,765	10,449	29	29	—	20,272

For the year ended December 31, 2010	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Total segment operating revenues	\$ 58,501	\$ 61,761	\$ 3,935	\$ 83	\$ —	\$ 124,280
Operations and support expenses	36,185	41,879	2,584	2,159	2,521	85,328
Depreciation and amortization expenses	6,498	12,372	497	12	—	19,379
Total segment operating expenses	42,683	54,251	3,081	2,171	2,521	104,707
Segment operating income (loss)	15,818	7,510	854	(2,088)	(2,521)	19,573
Interest expense	—	—	—	—	2,994	2,994
Equity in net income of affiliates	9	11	—	742	—	762
Other income (expense) – net	—	—	—	—	897	897
Segment income (loss) before income taxes	\$ 15,827	\$ 7,521	\$ 854	\$ (1,346)	\$ (4,618)	\$ 18,238

NOTE 4. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

Spectrum Acquisitions During 2012, we acquired \$855 of wireless spectrum from various companies. During 2011, we acquired \$33 of wireless spectrum from various companies, not including the Qualcomm spectrum purchase discussed in the following paragraph.

Qualcomm Spectrum Purchase In December 2011, we completed our purchase of spectrum licenses in the Lower 700 MHz frequency band from Qualcomm Incorporated for approximately \$1,925 in cash. The spectrum covers more than 300 million people total nationwide, including 12 MHz of Lower 700 MHz D and E block spectrum covering more than 70 million people in five of the top 15 metropolitan areas and 6 MHz of Lower 700 MHz D block spectrum covering more than 230 million people across the rest of the United States. We plan to deploy this spectrum as supplemental downlink capacity, using carrier aggregation technology once compatible handsets and network equipment are developed.

Wireless Properties Transactions In June 2010, we acquired certain wireless properties, including FCC licenses and network assets, from Verizon Wireless for \$2,376 in cash. The assets primarily represent former Alltel Wireless assets and served approximately 1.6 million subscribers in 79 service areas across 18 states.

Centennial In December 2010, we completed our acquisition accounting of Centennial Communications Corporation (Centennial), which included net assets of \$1,518 in goodwill, \$655 in FCC licenses, and \$449 in customer lists and other intangible assets.

Purchase of Wireless Partnership Minority Interest In July 2011, we completed the acquisition of Convergys Corporation's minority interests in the Cincinnati SMSA Limited Partnership and an associated cell tower holding company for approximately \$320 in cash.

Subsequent and Pending Acquisitions

Subsequent Spectrum Acquisitions On January 24, 2013, we completed the acquisition of NextWave Wireless Inc. (NextWave), which holds wireless licenses in the Wireless Communication Services and Advanced Wireless Service (AWS) bands. We acquired all the equity and purchased a portion of the debt of NextWave for \$600. In addition, certain of NextWave's assets were distributed to the holders of its debt in redemption of the remainder of that debt. During January 2013, we have also closed approximately \$400 of other wireless spectrum acquisitions from various companies.

Atlantic Tele-Network On January 22, 2013, we announced an agreement to acquire Atlantic Tele-Network's (ATNI) U.S. retail wireless operations for \$780 in cash, which covers approximately 4.6 million people in primarily rural areas across six states – Georgia, Idaho, Illinois, North Carolina, Ohio and South Carolina. The acquisition includes spectrum in the 700 MHz, 850 MHz and 1900 MHz bands and is largely complementary to our existing network. The transaction is subject to regulatory approval and we expect it to close in the second half of 2013.

Purchase of Spectrum from Verizon On January 25, 2013, we agreed to acquire spectrum in the 700 MHz B band from Verizon Wireless for \$1,900 in cash and the assignment of AWS spectrum in five markets. This transaction is subject to regulatory approval and we expect it to close in the second half of 2013.

Dispositions

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

Tender of Telmex Shares In August 2011, the Board of Directors of América Móvil, S.A. de C.V. (América Móvil) approved a tender offer for the remaining outstanding shares of Telefonos de México, S.A. de C.V. (Telmex) that were not already owned by América Móvil. We tendered all of our shares of Telmex for \$1,197 of cash. Telmex was accounted for as an equity method investment (see Note 7).

Sale of Sterling Operations In May 2010, we entered into an agreement to sell our Sterling Commerce Inc. (Sterling) subsidiary and changed our reporting for Sterling to discontinued operations. In August 2010, we completed the sale and received net proceeds of approximately \$1,400.

During the second quarter of 2010, we accounted for Sterling as a discontinued operation. We determined that the cash inflows under a transition services agreement and our cash outflows under an enterprise license agreement did not constitute significant continuing involvement with Sterling's operations after the sale.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following table includes Sterling's operating results, which are presented in the "Income From Discontinued Operations, net of tax" line item on the consolidated statements of income. These operating results were reported in our Other segment through August 27, 2010:

Operating revenues	\$349
Operating expenses	327
Operating income	22
Income before income taxes	18
Income tax expense	8
Income from discontinued operations during phase-out period	10
Gain on disposal of discontinued operations	769
Income from discontinued operations, net of tax	\$779

Centennial In August 2010, we sold operations in eight service areas in Louisiana and Mississippi, as required by the Department of Justice (DOJ), for \$273 in cash.

Other Dispositions In 2010, we also sold our domestic Japanese outsourcing services company for \$109.

Other

T-Mobile In March 2011, we agreed to acquire from Deutsche Telekom AG (Deutsche Telekom) all shares of T-Mobile USA, Inc. (T-Mobile) for approximately \$39,000, subject to certain adjustments. In December 2011, in light of opposition to the merger from the DOJ and FCC, we and Deutsche Telekom agreed to terminate the transaction. Pursuant to the purchase agreement, we paid a breakup fee of \$3,000, entered into a broadband roaming agreement and transferred certain wireless spectrum with a book value of \$962. These agreement termination charges were included in "Selling, general and administrative" expenses in our Other segment.

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amounts of goodwill, by segment (which is the same as the reporting unit for Wireless, Wireline and Advertising Solutions), for the years ended December 31, 2012 and 2011, were as follows:

	Wireless	Wireline	Advertising Solutions	Other	Total
Balance as of January 1, 2011	\$ 35,755	\$ 31,670	\$ 5,731	\$ 445	\$ 73,601
Goodwill acquired	5	—	—	—	5
Impairments	—	—	(2,745)	—	(2,745)
Other	(5)	1,968	(1,927)	(55)	(19)
Balance as of December 31, 2011	35,755	33,638	1,059	390	70,842
Goodwill acquired	13	5	—	—	18
Other	35	327	(1,059)	(390)	(1,087)
Balance as of December 31, 2012	\$35,803	\$33,970	\$ —	\$ —	\$69,773

In 2011, we recorded a \$2,745 impairment in the Advertising Solutions segment, triggered by declining revenues in our directory business and the directory industry as a whole. Changes to goodwill during 2011 also included a \$1,927 reclassification of goodwill from the Advertising Solutions segment to the Wireline segment to align certain advertising operations with our U-verse business, which operates the

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

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

	Lives (years)	2012	2011
Land	—	\$ 1,689	\$ 1,689
Buildings and improvements	10-45	28,939	28,054
Central office equipment ¹	3-10	86,185	83,824
Cable, wiring and conduit	10-50	80,338	78,431
Other equipment	5-20	61,387	53,104
Software	3-5	7,957	10,041
Under construction	—	4,412	5,136
		270,907	260,279
Accumulated depreciation and amortization		161,140	153,192
Property, plant and equipment – net		\$109,767	\$107,087

¹Includes certain network software.

Our depreciation expense was \$16,933 in 2012, \$16,368 in 2011 and \$16,402 in 2010. Depreciation expense included amortization of software totaling \$2,130 in 2012, \$2,243 in 2011 and \$2,515 in 2010.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were \$3,709 for 2012, \$3,610 for 2011, and \$3,060 for 2010. At December 31, 2012, the future minimum rental payments under noncancelable operating leases for the years 2013 through 2017 were \$2,706, \$2,616, \$2,486, \$2,337, and \$2,165, with \$11,755 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. Capital leases are not significant.

media platform for those advertising operations. Changes to goodwill during 2012 primarily resulted from the sale of the Advertising Solutions segment (see Note 4). Changes in goodwill during 2012 also included a reclassification of goodwill due to segment reclassification to better align goodwill with operations.

Our other intangible assets are summarized as follows:

Other Intangible Assets	December 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer lists and relationships:				
AT&T Mobility LLC	\$ 6,760	\$ 6,335	\$ 6,845	\$ 5,906
BellSouth Corporation	5,825	4,994	9,205	7,686
AT&T Corp.	2,490	2,356	2,483	2,205
Other	351	350	350	329
Subtotal	15,426	14,035	18,883	16,126
Other	304	174	485	258
Total	\$15,730	\$14,209	\$19,368	\$16,384
Indefinite-lived intangible assets not subject to amortization:				
Licenses	\$52,352		\$51,374	
Trade names	4,902		4,985	
Total	\$57,254		\$56,359	

Amortized intangible assets are definite-life assets, and as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets. Intangible assets that have finite useful lives are amortized over their useful lives, a weighted-average of 8.5 years (8.4 years for customer lists and relationships and 12.1 years for other). Customer lists and relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the expected period in which those relationships are expected to contribute to our future cash flows. The remaining finite-lived intangible assets are generally amortized using the straight-line method of amortization. Amortization expense for definite-life intangible assets was \$1,210 for the year ended December 31, 2012, \$2,009 for the year ended December 31, 2011, and \$2,977 for the year ended December 31, 2010. Amortization expense is estimated to be \$667 in 2013, \$348 in 2014, \$218 in 2015, \$123 in 2016, and \$57 in 2017. In 2012, we wrote off approximately \$191 in fully amortized intangible assets (primarily patents) and \$3,187 of customer lists due to the sale of our Advertising Solutions segment (see Note 4). We review other amortizing intangible assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

We review indefinite-lived intangible assets for impairment annually (see Note 1). Licenses include wireless FCC licenses of \$52,318 at December 31, 2012 and \$51,358 at December 31, 2011, that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services.

We recorded a \$165 impairment in 2011 and an \$85 impairment in 2010 for a trade name.

NOTE 7. EQUITY METHOD INVESTMENTS

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

Our investments in equity affiliates primarily include international equity investments, and our 47 percent equity interest in YP Holdings. As of December 31, 2012, our investments in equity affiliates included a 9.55 percent interest in América Móvil, primarily a wireless provider in Mexico with telecommunications investments in the United States and Latin America. We are a member of a consortium that holds all of the class AA shares of América Móvil stock, representing voting control of the company. Another member of the consortium has the right to appoint a majority of the directors of América Móvil.

Telmex Transaction During 2011, the Board of Directors of América Móvil approved and completed a tender offer for the remaining outstanding shares of Telmex that were not already owned by América Móvil. In conjunction with the tender of our shares, we have recorded our portion of América Móvil's resulting equity adjustments.

Telmex Internacional On June 11, 2010, as part of a tender offer from América Móvil, we exchanged all our shares in Telmex Internacional, S.A.B. de C.V. (Telmex Internacional) for América Móvil L shares at the offered exchange rate of 0.373, which resulted in a pretax gain of \$658. The exchange was accounted for at fair value. In addition, we paid \$202 to purchase additional shares of América Móvil L shares to maintain our ownership percentage at a pretransaction level.

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

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

	2012	2011
Beginning of year	\$3,718	\$4,515
Additional investments	405	35
Equity in net income of affiliates	752	784
Dividends received	(137)	(161)
Dispositions	—	(660)
Currency translation adjustments	95	(515)
América Móvil equity adjustments	(260)	(171)
Other adjustments	8	(109)
End of year	\$4,581	\$3,718

Undistributed earnings from equity affiliates were \$6,375 and \$5,760 at December 31, 2012 and 2011.

At December 31, 2012 the fair value of our investment in América Móvil, based on the equivalent value of América Móvil L shares was \$8,380.

NOTE 8. DEBT

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

	2012	2011
Notes and debentures		
Interest Rates		
Maturities ¹		
0.80% – 2.99%	\$13,969	\$ 5,500
3.00% – 4.99%	14,590	8,659
5.00% – 6.99%	35,226	41,390
7.00% – 9.10%	7,059	8,471
Other	2	3
Fair value of interest rate swaps recorded in debt	267	445
	71,113	64,468
Unamortized (discount) premium – net	(1,535)	46
Total notes and debentures	69,578	64,514
Capitalized leases	265	239
Total long-term debt, including current maturities	69,843	64,753
Current maturities of long-term debt	(3,485)	(3,453)
Total long-term debt	\$66,358	\$61,300

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

Current maturities of long-term debt include debt that may be put back to us by the holders in 2013. We have \$1,000 of annual put reset securities that may be put each April until maturity in 2021. If the holders do not require us to repurchase the securities, the interest rate will be reset based on current market conditions. Likewise, we have an accreting zero-coupon note that may be redeemed each May, until maturity in 2022. If the zero-coupon note (issued for principal of \$500 in 2007) is held to maturity, the redemption amount will be \$1,030.

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

	2012	2011
Current maturities of long-term debt	\$3,485	\$3,453
Bank borrowings ¹	1	—
Total	\$3,486	\$3,453

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

Debt Refinancing

During 2012, we received net proceeds of \$13,486, from the issuance of \$13,569 in long-term debt with an average weighted maturity of approximately 12 years and an average interest rate of 2.54%. We redeemed \$8,083 in borrowing, including \$6,200 in early redemptions, with an average interest rate of 5.58%.

Debt Exchange

During 2012, we completed a private debt exchange covering \$4,099 of various notes with stated rates of 6.00% to 8.75% for \$1,956 in new 4.3% AT&T Inc. global notes due 2042 and \$3,044 in new 4.35% AT&T Inc. global notes due 2045 plus a \$650 cash payment.

As of December 31, 2012 and 2011, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Maturities of outstanding long-term notes and debentures, as of December 31, 2012, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2013	2014	2015	2016	2017	There- after
Debt						
repayments ¹	\$3,475	\$3,788	\$6,514	\$4,923	\$4,757	\$47,578
Weighted-average interest rate	4.9%	5.2%	3.2%	3.7%	2.5%	5.5%

¹Debt repayments assume puttable debt is redeemed by the holders at the next opportunity.

Credit Facilities

On December 11, 2012, we amended and extended for an additional one-year term our existing \$5,000, four-year revolving credit agreement (Four-Year Agreement) with a syndicate of banks until December 2016. We also entered into a new \$3,000, five-year revolving credit agreement (Five-Year Agreement), with a syndicate of banks, to replace our expiring 364-day revolving credit agreement. In the event advances are made under either 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 each agreement. Under each agreement, we can terminate, in whole or in part, amounts committed by the lenders in excess of any outstanding advances; however,

we cannot reinstate any such terminated commitments. At December 31, 2012, we had no advances outstanding under either agreement and were in compliance with all covenants under each agreement.

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

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

The Applicable Margin for both agreements will equal 0.565% per annum if our unsecured long-term debt is rated at least A+ by Standard & Poor's (S&P) or Fitch, Inc. (Fitch) or A1 by Moody's Investors Service (Moody's). The Applicable Margin will be 0.680% per annum if our unsecured long-term debt ratings are A or A2 and will be 0.910% per annum in the event our unsecured long-term debt ratings are A- and A3 (or below). In the event that AT&T's unsecured long-term debt ratings are split by S&P, Moody's and Fitch, then the Applicable Margin will be determined by the highest of the three ratings, except that in the event the lowest of such ratings is more than one level below the highest of the ratings then the Applicable Margin will be determined based on the level that is one level above the lowest of such ratings.

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

Both agreements contain a negative pledge covenant, which requires that, if at any time AT&T or a subsidiary pledges assets or otherwise permits a lien on its properties, advances under the agreement will be ratably secured, subject to specified exceptions. Both agreements also contain a financial ratio covenant that provides that AT&T will maintain, as of the last day of each fiscal quarter, a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreements) ratio of not more than 3.0 to 1, for the four quarters then ended.

Defaults under both agreements, which would permit the lenders to accelerate required repayment and which would increase the Applicable Margin by 2.00% per annum, include:

- We fail to pay principal or interest, or other amounts under the agreement beyond any grace period.

- We fail to pay when due other debt of \$400 or more that results in acceleration of that debt (commonly referred to as cross-acceleration) or a creditor commences enforcement proceedings within a specified period after a money judgment of \$400 or more has become final.
- A person acquires beneficial ownership of more than 50% of AT&T common shares or more than a majority of AT&T's directors change in any 24-month period other than as elected by the remaining directors (commonly referred to as a change in control).
- Material breaches of representations or warranties in the agreement.
- We fail to comply with the negative pledge or debt-to-EBITDA ratio covenants under the agreement.
- We fail to comply with other covenants under the agreement for a specified period after notice.
- We fail to make certain minimum funding payments under the Employee Retirement Income Security Act of 1974, as amended (ERISA).
- Our bankruptcy or insolvency.

Both the Five-Year Agreement and the Four-Year Agreement contain provisions permitting subsidiaries to be added as additional borrowers, with or without a guarantee by AT&T Inc. The terms of the guarantee are set forth in the agreements.

Four-Year Agreement

The obligations of the lenders under the Four-Year Agreement to provide advances will terminate on December 11, 2016, unless prior to that date either: (i) AT&T and, if applicable, a Co-Borrower, reduces to \$0 the commitments of the lenders under the Agreement or (ii) certain events of default occur. The Agreement also provides that AT&T and lenders representing more than 50% of the facility amount may agree to extend their commitments under the Four-Year Agreement for two additional one-year periods beyond the December 11, 2016 termination date, under certain circumstances. We also can request the lenders to further increase their commitments (i.e., raise the available credit) up to an additional \$2,000 provided no event of default has occurred.

Five-Year Agreement

The obligations of the lenders under the Five-Year Agreement to provide advances will terminate on December 11, 2017, unless prior to that date either: (i) AT&T, and if applicable, a Co-Borrower, reduce to \$0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than 50% of the facility amount may agree to extend their commitments for two one-year periods beyond the December 11, 2017, termination date, under certain circumstances. We also can request the lenders to further increase their commitments (i.e., raise the available credit) up to an additional \$2,000 provided no event of default has occurred.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

NOTE 9. FAIR VALUE MEASUREMENTS AND DISCLOSURE

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

LEVEL 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we have the ability to access.
LEVEL 2	Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets and liabilities in active markets.• Quoted prices for identical or similar assets or liabilities in inactive markets.• Inputs other than quoted market prices that are observable for the asset or liability.• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
LEVEL 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement. <ul style="list-style-type: none">• Fair value is often based on developed models in which there are few, if any, external observations.

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

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable value or reflective of future fair values. We believe our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used since December 31, 2011.

Long-Term Debt and Other Financial Instruments

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

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures	\$69,578	\$81,310	\$64,514	\$73,738
Bank borrowings	1	1	—	—
Investment securities	2,218	2,218	2,092	2,092

The carrying value of debt with an original maturity of less than one year approximates market value. The fair value measurement used for notes and debentures are considered Level 2.

Investment Securities

Our investment securities include equities, fixed income bonds and other securities. A substantial portion of the fair values of our available-for-sale securities were estimated based on quoted market prices. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Realized gains and losses on securities are included in "Other income (expense) – net" in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated OCI. Unrealized losses that are considered other than temporary are recorded in "Other income (expense) – net" with the corresponding reduction to the carrying basis of the investment. Fixed income investments of \$86 have maturities of less than one year, \$280 within one to three years, \$210 within three to five years, and \$261 for five or more years, which approximate fair value.

Our short-term investments (including money market securities) and customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values.

Our investment securities maturing within one year are recorded in "Other current assets," and instruments with maturities of more than one year are recorded in "Other Assets" on the consolidated balance sheets.

Following is the fair value leveling for available-for-sale securities and derivatives as of December 31, 2012, and December 31, 2011:

	December 31, 2012			Total
	Level 1	Level 2	Level 3	
Available-for-Sale Securities				
Domestic equities	\$873	\$ —	\$ —	\$ 873
International equities	469	—	—	469
Fixed income bonds	—	837	—	837
Asset Derivatives ¹				
Interest rate swaps	—	287	—	287
Cross-currency swaps	—	752	—	752
Foreign exchange contracts	—	1	—	1
Liability Derivatives ¹				
Cross-currency swaps	—	(672)	—	(672)

	December 31, 2011			Total
	Level 1	Level 2	Level 3	
Available-for-Sale Securities				
Domestic equities	\$ 947	\$ —	\$ —	\$ 947
International equities	495	—	—	495
Fixed income bonds	—	562	—	562
Asset Derivatives ¹				
Interest rate swaps	—	521	—	521
Cross-currency swaps	—	144	—	144
Foreign exchange contracts	—	2	—	2
Liability Derivatives ¹				
Cross-currency swaps	—	(820)	—	(820)
Interest rate locks	—	(173)	—	(173)
Foreign exchange contracts	—	(9)	—	(9)

¹Derivatives designated as hedging instruments are reflected as other assets, other liabilities and, for a portion of interest rate swaps, other current assets.

Derivative Financial Instruments

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

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

Fair Value Hedging We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed-rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense on the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed-rate notes payable they hedge due to changes in the designated benchmark interest rate and are recognized in interest expense. Gains or losses realized upon early termination of our fair value hedges are recognized in interest expense. In the years ended December 31, 2012, and December 31, 2011, no ineffectiveness was measured.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Cash Flow Hedging Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities, both for the period they are outstanding. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as other income or expense in each period.

We designate our cross-currency swaps as cash flow hedges. We have entered into multiple cross-currency swaps to hedge our exposure to variability in expected future cash flows that are attributable to foreign currency risk generated from the issuance of our Euro and British pound sterling denominated debt. These agreements include initial and final exchanges of principal from fixed foreign denominations to fixed U.S. denominated amounts, to be exchanged at a specified rate, which was determined by the market spot rate upon issuance. They also include an interest rate swap of a fixed foreign-denominated rate to a fixed U.S. denominated interest rate. We evaluate the effectiveness of our cross-currency swaps each quarter. In the years ended December 31, 2012, and December 31, 2011, no ineffectiveness was measured.

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to consolidated other income/expense. Over the next 12 months, we expect to reclassify \$45 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks. In February 2012, we utilized \$800 notional value of interest rate locks related to our February 2012 debt issuance.

We hedge a portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Some of these instruments are designated as cash flow hedges while others remain nondesignated, largely based on size and duration. Gains and losses at the time we settle or take delivery on our designated foreign exchange contracts are amortized into income in the same period the hedged transaction affects earnings, except where an amount is deemed to be ineffective, which would be immediately reclassified to other income (expense) on the consolidated income statement. In the years ended December 31, 2012, and December 31, 2011, no ineffectiveness was measured.

Collateral and Credit-Risk Contingency We have entered into agreements with our derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. At December 31, 2012, we had posted collateral of \$22 (a deposit asset) and held collateral of \$543 (a receipt liability). Under the agreements, if our credit rating had been downgraded one rating level by Moody's and Fitch before the final collateral exchange in December, we would have been required to post additional collateral of \$120. At December 31, 2011, we had posted collateral of \$98 and had no held collateral. We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), against the fair value of the derivative instruments.

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

	2012	2011
Interest rate swaps	\$ 3,000	\$ 8,800
Cross-currency swaps	12,071	7,502
Interest rate locks	—	800
Foreign exchange contracts	51	207
Total	\$15,122	\$17,309

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

Effect of Derivatives on the Consolidated Statements of Income

Fair Value Hedging Relationships For the years ended December 31,	2012	2011	2010
Interest rate swaps (Interest expense):			
Gain (Loss) on interest rate swaps	\$(179)	\$ 10	\$ 125
Gain (Loss) on long-term debt	179	(10)	(125)

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

Cash Flow Hedging Relationships For the year ended December 31,	2012	2011	2010
Cross-currency swaps:			
Gain (Loss) recognized in accumulated OCI	\$432	\$(219)	\$(201)
Interest rate locks:			
Gain (Loss) recognized in accumulated OCI	—	(167)	(320)
Interest income (expense) reclassified from accumulated OCI into income	(43)	(23)	(19)
Foreign exchange contracts:			
Gain (Loss) recognized in accumulated OCI	5	(10)	5

The balance of the unrealized derivative gain (loss) in accumulated OCI was \$(110) at December 31, 2012, \$(421) at December 31, 2011, and \$(180) at December 31, 2010.

NOTE 10. INCOME TAXES

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

	2012	2011
Depreciation and amortization	\$ 41,411	\$ 39,367
Intangibles (nonamortizable)	1,874	1,897
Employee benefits	(13,350)	(14,950)
Net operating loss and other carryforwards	(2,167)	(1,502)
Other – net	(1,199)	(1,451)
Subtotal	26,569	23,361
Deferred tax assets valuation allowance	886	917
Net deferred tax liabilities	\$ 27,455	\$ 24,278
Net long-term deferred tax liabilities	\$ 28,491	\$ 25,748
Less: Net current deferred tax assets	(1,036)	(1,470)
Net deferred tax liabilities	\$ 27,455	\$ 24,278

At December 31, 2012, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of \$780 and for state and foreign income tax purposes of \$956, expiring through 2031. Additionally, we had state credit carryforwards of \$431, expiring primarily through 2032.

We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. Our valuation allowances at December 31, 2012 and 2011, relate primarily to state net operating loss and state credit carryforwards.

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

A reconciliation of the change in our UTB balance from January 1 to December 31 for 2012 and 2011 is as follows:

Federal, State and Foreign Tax	2012	2011
Balance at beginning of year	\$ 4,541	\$ 4,360
Increases for tax positions related to the current year	791	217
Increases for tax positions related to prior years	991	848
Decreases for tax positions related to prior years	(1,426)	(1,066)
Lapse of statute of limitations	(29)	—
Settlements	(75)	182
Balance at end of year	4,793	4,541
Accrued interest and penalties	977	1,312
Gross unrecognized income tax benefits	5,770	5,853
Less: Deferred federal and state income tax benefits	(610)	(797)
Less: Tax attributable to timing items included above	(2,448)	(2,331)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	\$ 2,712	\$ 2,725

Periodically we make deposits to taxing jurisdictions which reduce our UTB balance but are not included in the reconciliation above. The amount of deposits that reduced our UTB balance was \$2,372 at December 31, 2012, and \$2,508 at December 31, 2011.

Accrued interest and penalties included in UTBs were \$977 as of December 31, 2012, and \$1,312 as of December 31, 2011. We record interest and penalties related to federal, state and foreign UTBs in income tax expense. The net interest and penalty expense (benefit) included in income tax expense was \$(74) for 2012, \$(65) for 2011, and \$(194) for 2010.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. As a large taxpayer, our income tax returns are regularly audited by the Internal Revenue Service (IRS) and other taxing authorities. The IRS has completed field examinations of our tax returns through 2008. All audit periods prior to 2003 are closed for federal examination purposes. We are engaged with the IRS Appeals Division in resolving issues related to our 2003 through 2008 returns; we are unable to estimate the impact the resolution of these issues may have on our UTBs.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

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

	2012	2011	2010
Federal:			
Current	\$ 451	\$ (420)	\$ 307
Deferred – net	2,256	2,555	(2,105)
	2,707	2,135	(1,798)
State, local and foreign:			
Current	702	23	141
Deferred – net	(509)	374	495
	193	397	636
Total	\$2,900	\$2,532	\$(1,162)

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

	2012	2011	2010
Taxes computed at federal statutory rate	\$3,654	\$2,351	\$ 6,383
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	85	210	441
Goodwill Impairment	—	961	—
Healthcare Reform Legislation	—	—	917
IRS Settlement – 2008 Wireless Restructuring	—	—	(8,300)
Other – net	(839)	(990)	(603)
Total	\$2,900	\$2,532	\$(1,162)
Effective Tax Rate	27.8%	37.7%	(6.4)%

In March 2010, comprehensive healthcare reform legislation, which included a change in the tax treatment related to Medicare Part D subsidies, was enacted. We recorded a \$995 charge to income tax expense in our consolidated statement of income during the first quarter of 2010 and increased our deferred income taxes liability balance to reflect the impact of this change.

In September 2010, we reached a settlement with the IRS on tax basis calculations related to a 2008 restructuring of our wireless operations. The IRS settlement resolved the uncertainty regarding the amount and timing of amortization deductions related to certain of our wireless assets. We recorded an \$8,300 reduction to income tax expense in our consolidated statement of income during the third quarter of 2010 and corresponding decreases of \$6,760 to our net noncurrent deferred income tax liabilities and \$1,540 to other net tax liabilities to reflect the tax benefits of the settlement. The IRS settlement resulted in a reduction to our UTBs for tax positions related to prior years of \$1,057, which also reduced the total amount of UTBs that, if recognized, would impact the effective tax rate.

NOTE 11. PENSION AND POSTRETIREMENT BENEFITS

Pension Benefits and Postretirement Benefits

Substantially all of our U.S. employees are covered by one of our noncontributory pension and death benefit plans. Our newly hired management employees participate in a cash balance pension program, while longer-service management employees participate in a pension program that has a traditional pension formula (i.e., a stated percentage of employees' adjusted career income) and a frozen cash balance, or a program that has a defined lump sum formula. Nonmanagement employees' pension benefits are generally calculated using one of two formulas: benefits are based on a flat dollar amount per year according to job classification or are calculated under a cash balance plan that is based on an initial cash balance amount and a negotiated annual pension band and interest credits. Most nonmanagement employees can elect to receive their pension benefits in either a lump sum payment or an annuity.

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

During 2012, approximately 90,000 collectively bargained employees ratified new agreements. For the vast majority of covered employees, the agreements provided for a pension band increase of 1 percent for each year of the agreement. These agreements also provide for continued health care coverage with a modest increase to employee costs over the agreement term. There were also modest increases to retiree costs for continued health care coverage for retirees.

During 2012, we transferred the funding of the payment of postretirement death benefits not already in the Voluntary Employee Benefit Association (VEBA) trust from the pension trust to the postretirement VEBA trust.

In 2011, we announced that beginning in 2013, as a result of federal healthcare reform, we would begin contracting with a Medicare Part D plan on a group basis to provide prescription drug benefits to certain Medicare eligible retirees. This plan change resulted in the adoption of plan amendments during the fourth quarter of 2011, and will allow the Company to be eligible for greater Medicare Part D plan subsidies over time.

Obligations and Funded Status

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

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

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

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Benefit obligation at beginning of year	\$56,110	\$53,917	\$34,953	\$36,638
Service cost – benefits earned during the period	1,216	1,186	336	362
Interest cost on projected benefit obligation	2,800	2,958	1,725	2,051
Amendments	(905)	—	(2,768)	(1,830)
Actuarial loss	6,707	2,972	4,844	478
Special termination benefits	12	27	5	4
Benefits paid	(5,729)	(4,950)	(2,608)	(2,750)
Transfer for sale of Advertising Solutions segment	(149)	—	(207)	—
Plan transfers	(1,151)	—	1,151	—
Benefit obligation at end of year	\$58,911	\$56,110	\$37,431	\$34,953

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

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Fair value of plan assets at beginning of year	\$ 45,907	\$ 47,621	\$ 9,890	\$ 12,747
Actual return on plan assets	5,041	2,238	1,266	(224)
Benefits paid ¹	(5,729)	(4,950)	(1,842)	(2,633)
Contributions	3	1,000	—	—
Transfer for sale of Advertising Solutions segment	(165)	—	(19)	—
Other	3	(2)	—	—
Fair value of plan assets at end of year	45,060	45,907	9,295	9,890
Unfunded status at end of year ²	\$(13,851)	\$(10,203)	\$(28,136)	\$(25,063)

¹At our discretion, certain postretirement benefits may be paid from AT&T cash accounts, which does not reduce VEBA assets. Future benefit payments may be made from VEBA trusts and thus reduce those asset balances.

²Funded status is not indicative of our ability to pay ongoing pension benefits or of our obligation to fund retirement trusts. Required pension funding is determined in accordance with ERISA regulations.

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

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
Current portion of employee benefit obligation ¹	\$ —	\$ —	\$ (2,116)	\$ (2,288)
Employee benefit obligation ²	(13,851)	(10,203)	(26,020)	(22,775)
Net amount recognized	\$(13,851)	\$(10,203)	\$(28,136)	\$(25,063)

¹Included in “Accounts payable and accrued liabilities.”

²Included in “Postemployment benefit obligation.”

Prior service credits included in our accumulated OCI that have not yet been recognized in net periodic benefit cost were \$1,035 for pension and \$7,688 for postretirement benefits at December 31, 2012, and \$149 for pension and \$5,896 for postretirement benefits at December 31, 2011.

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was \$57,010 at December 31, 2012, and \$53,640 at December 31, 2011.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

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

Our combined net pension and postretirement cost recognized in our consolidated statements of income was \$10,257, \$7,288 and \$3,750 for the years ended December 31, 2012, 2011 and 2010. A portion of pension and postretirement benefit costs is capitalized as part of the benefit load on internal construction

Net Periodic Benefit Cost

	Pension Benefits			Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
Service cost – benefits earned during the period	\$ 1,216	\$ 1,186	\$ 1,075	\$ 336	\$ 362	\$ 348
Interest cost on projected benefit obligation	2,800	2,958	3,150	1,725	2,051	2,257
Expected return on assets	(3,520)	(3,690)	(3,775)	(811)	(1,040)	(943)
Amortization of prior service cost (credit)	(15)	(15)	(16)	(927)	(694)	(624)
Actuarial (gain) loss	5,206	4,498	1,768	4,247	1,672	510
Net pension and postretirement cost ¹	\$ 5,687	\$ 4,937	\$ 2,202	\$ 4,570	\$ 2,351	\$ 1,548

¹During 2012, 2011 and 2010, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 reduced postretirement benefit cost by \$142, \$280 and \$237. This effect is included in several line items above.

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

	Pension Benefits			Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
Prior service (cost) credit	\$559	\$ —	\$ —	\$1,686	\$1,134	\$ 459
Amortization of prior service cost (credit)	(10)	(10)	(10)	(575)	(430)	(388)
Total recognized in other comprehensive (income) loss (net of tax)	\$549	\$(10)	\$(10)	\$1,111	\$ 704	\$ 71

The estimated prior service credits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year is \$94 for pension and \$1,049 for postretirement benefits.

Assumptions

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

	2012	2011	2010
Discount rate for determining projected benefit obligation at December 31	4.30%	5.30%	5.80%
Discount rate in effect for determining net cost	5.30%	5.80%	6.50%
Long-term rate of return on plan assets	8.25%	8.25%	8.50%
Composite rate of compensation increase for determining projected benefit obligation	3.00%	4.00%	4.00%
Composite rate of compensation increase for determining net pension cost (benefit)	4.00%	4.00%	4.00%

and capital expenditures, providing a small reduction in the net expense recorded.

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

Uncertainty in the securities markets and U.S. economy could result in investment returns less than those assumed. Should the securities markets decline or medical and prescription drug costs increase at a rate greater than assumed, we would expect increasing annual combined net pension and postretirement costs for the next several years. 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.

Our expected return on plan assets is calculated using the actual fair value of plan assets. We recognize actual gains and losses on pension and postretirement plan assets immediately in our operating results. These gains and losses are measured annually as of December 31 and accordingly will be recorded during the fourth quarter, unless earlier remeasurements are required.

Discount Rate Our assumed discount rate of 4.30% at December 31, 2012, 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, 2012, we decreased our discount rate by 1.00%, resulting in an increase in our pension plan benefit obligation of \$7,030 and an increase in our postretirement benefit obligation of \$4,546. For the year ended December 31, 2011, we decreased our discount rate by 0.50%, resulting in an increase in our pension plan benefit obligation of \$3,384 and an increase in our postretirement benefit obligation of \$2,114.

Expected Long-Term Rate of Return Our expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. Our expected long-term rate of return on plan assets assumption was 8.25% for the year ended December 31, 2012. In 2013, due to the continued uncertainty in the securities markets, the U.S. economy and the plans' asset mix, we have lowered our expected long-term rate of return on plan assets to 7.75%. In setting the long-term assumed rate of return, management considers capital markets future expectations and the asset mix of the plans' investments. Actual long-term return can, in relatively stable markets, also serve as a factor in determining future expectations. We consider many factors that include, but are not limited to, historical returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisers. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the actual long-term rate of return would cause 2013 combined pension and postretirement cost to increase \$260. However, any differences in the rate and actual returns will be included with the actuarial gain or loss recorded in the fourth quarter when our plans are remeasured.

Composite Rate of Compensation Increase Our expected composite rate of compensation increase cost of 3.00% in 2013 and 4.00% in 2012 reflects the long-term average rate of salary increases. Based on historic salary increase experience and management's expectations of future salary increases, we reduced our expected composite rate of compensation increase assumption from 4.00% to 3.00% in 2013.

Healthcare Cost Trend Our healthcare cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. In addition to the healthcare cost trend in 2012, we assumed an annual 3.00% growth in administrative expenses and an annual 3.00% growth in dental claims. For 2013, we have assumed an annual 2.50% growth in administrative expenses. Our assumed annual healthcare cost trend rate for 2013 and 2012 is 5.00% and our ultimate trend rate is 5.00%.

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

	One Percentage-Point Increase	One Percentage-Point Decrease
Increase (decrease) in total of service and interest cost components	\$ 260	\$ (208)
Increase (decrease) in accumulated postretirement benefit obligation	3,676	(3,362)

Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets (real estate and natural resources). The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. We have a required contribution to our pension plans for 2013 of approximately \$300.

In October 2012, we filed an application with the U.S. Department of Labor (DOL) for approval to make a voluntary contribution of a preferred equity interest in our Mobility business to the trust used to pay qualified pension benefits, under plans sponsored by AT&T. The preferred equity interest is estimated to be valued at \$9,500 upon contribution. We anticipate approval in 2013, and expect to make the contribution at that time. As currently proposed, the preferred equity interest will not be included in plan assets in our consolidated financial statements upon contribution, but will constitute a qualified plan asset for ERISA funding purposes. Final determination of whether it will qualify as a plan asset for financial reporting purposes is subject to the final terms of the preferred equity interest.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

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

The principal investment objectives are to ensure the availability of funds to pay pension and postretirement benefits as they become due under a broad range of future economic scenarios, to maximize long-term investment return with an acceptable level of risk based on our pension and postretirement obligations, and to be broadly diversified across and within the capital markets to insulate asset values against adverse experience in any one market. Each asset class has broadly diversified characteristics. Substantial biases toward any particular investing style or type of security are sought to be avoided by managing the aggregation of all accounts with portfolio benchmarks.

Asset and benefit obligation forecasting studies are conducted periodically, generally every two to three years, or when significant changes have occurred in market conditions, benefits, participant demographics or funded status. Decisions regarding investment policy are made with an understanding of the effect of asset allocation on funded status, future contributions and projected expenses. The current asset allocation policy and risk level for the pension plan and VEBA assets are based on a study completed and approved during 2011.

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

	Pension Assets			Postretirement (VEBA) Assets		
	Target	2012	2011	Target	2012	2011
Equity securities:						
Domestic	25% – 35%	26%	24%	32% – 42%	37%	39%
International	10% – 20%	16	15	28% – 38%	33	31
Fixed income securities	30% – 40%	34	34	19% – 29%	24	21
Real assets	6% – 16%	11	11	0% – 6%	1	1
Private equity	4% – 14%	13	13	0% – 9%	4	5
Other	0% – 5%	—	3	0% – 7%	1	3
Total		100%	100%		100%	100%

At December 31, 2012, AT&T securities represented less than 0.5% of assets held by our pension plans and VEBA trusts.

Investment Valuation

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

Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Shares of registered investment companies are valued based on quoted market prices, which represent the net asset value of shares held at year-end. Over-the-counter (OTC) securities and government obligations are valued at

the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Depending on the types and contractual terms of OTC derivatives, fair value is measured using valuation techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models.

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

Alternative investments, including investments in private equity, real estate, natural resources (included in real assets), mezzanine and distressed debt (included in partnerships/joint ventures), limited partnership interest, fixed income securities and hedge funds do not have readily available market values. These estimated fair values may differ significantly from the

values that would have been used had a ready market for these investments existed, and such differences could be material. Alternative investments not having an established market are valued at fair value as determined by the investment managers. Private equity, mezzanine and distressed investments are often valued initially by the investment managers based upon cost. Thereafter, investment managers may use available market data to determine adjustments to carrying value based upon observations of the trading multiples of public companies considered comparable to the private companies being valued. Such market data used to determine adjustments to accounts for cash flows and company-specified issues include current operating performance and future expectations of the investments, changes in market outlook, and the third-party financing environment. Private equity partnership holdings may also include publicly held equity investments in liquid markets that are marked-to-market at quoted public values, subject to adjustments for large positions held. Real estate and natural resource direct investments are valued either at amounts based upon appraisal reports prepared by independent third-party appraisers or at amounts as determined by internal appraisals performed by the investment manager, which have been agreed to by an external valuation consultant. Fixed income securities valuation is based upon pricing provided by an external pricing service when such pricing is available. In the event a security is too thinly traded or narrowly held to be priced by such a pricing service, or the price furnished by

such external pricing services is deemed inaccurate, the managers will then solicit broker/dealer quotes (spreads or prices). In cases where such quotes are available, fair value will be determined based solely upon such quotes provided. Managers will typically use a pricing matrix for determining fair value in cases where an approved pricing service or a broker/dealer is unable to provide a fair valuation for specific fixed-rate securities such as many private placements. New fixed-rate securities will be initially valued at cost at the time of purchase. Thereafter, each bond will be assigned a spread from a pricing matrix that will be added to current Treasury rates. The pricing matrix derives spreads for each bond based on external market data, including the current credit rating for the bonds, credit spreads to Treasuries for each credit rating, sector add-ons or credits, issue specific add-ons or credits as well as call or other options.

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

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

Fair Value Measurements

See Note 9 "Fair Value Measurements and Disclosure" for a discussion of fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following table sets forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2012:

Pension Assets and Liabilities at Fair Value as of December 31, 2012	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	\$ 144	\$ —	\$ —	\$ 144
Interest bearing cash	56	235	—	291
Foreign currency contracts	—	1	—	1
Equity securities:				
Domestic equities	8,291	—	—	8,291
International equities	6,361	29	—	6,390
Fixed income securities:				
Asset-backed securities	—	543	14	557
Mortgage-backed securities	—	2,324	—	2,324
Collateralized mortgage-backed securities	—	311	—	311
Collateralized mortgage obligations/REMICs	—	523	1	524
Other Corporate and other bonds and notes	140	4,903	600	5,643
Government and municipal bonds	50	5,301	—	5,351
Private equity funds	—	—	5,797	5,797
Real estate and real assets	—	—	4,766	4,766
Commingled funds	—	4,927	426	5,353
Securities lending collateral	868	1,930	1	2,799
Receivable for variation margin	72	—	—	72
Assets at fair value	15,982	21,027	11,605	48,614
Investments sold short and other liabilities at fair value	563	7	—	570
Total plan net assets at fair value	\$15,419	\$21,020	\$11,605	\$ 48,044
Other assets (liabilities) ¹				(2,984)
Total Plan Net Assets				\$45,060

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

Postretirement Assets and Liabilities at Fair Value as of December 31, 2012	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 169	\$ 243	\$ —	\$ 412
Equity securities:				
Domestic equities	2,575	—	—	2,575
International equities	2,685	1	—	2,686
Fixed income securities:				
Asset-backed securities	—	29	—	29
Collateralized mortgage-backed securities	—	79	—	79
Collateralized mortgage obligations	—	46	—	46
Other Corporate and other bonds and notes	1	383	17	401
Government and municipal bonds	22	598	—	620
Commingled funds	82	2,038	4	2,124
Private equity assets	—	—	343	343
Real assets	—	—	110	110
Securities lending collateral	544	81	—	625
Assets at fair value	6,078	3,498	474	10,050
Total plan net assets at fair value	\$6,078	\$3,498	\$474	\$10,050
Other assets (liabilities) ¹				(755)
Total Plan Net Assets				\$ 9,295

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

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2012:

Pension Assets	Equities	Fixed Income Funds	Private Equity Funds	Real Estate and Real Assets	Total
Balance at beginning of year	\$ 4	\$ 824	\$ 5,931	\$ 5,213	\$ 11,972
Realized gains (losses)	(1)	16	459	165	639
Unrealized gains (losses)	1	33	32	10	76
Transfers in	—	120	12	24	156
Transfers out	—	(2)	—	—	(2)
Purchases	—	142	610	918	1,670
Sales	(4)	(91)	(1,247)	(1,564)	(2,906)
Balance at end of year	\$ —	\$1,042	\$5,797	\$4,766	\$11,605

Postretirement Assets	Fixed Income Funds	Private Equity Funds	Real Assets	Total
Balance at beginning of year	\$ 24	\$ 437	\$ 124	\$ 585
Realized gains (losses)	—	58	16	74
Unrealized gains (losses)	—	(39)	(5)	(44)
Purchases	—	20	33	53
Sales	(3)	(133)	(58)	(194)
Balance at end of year	\$21	\$ 343	\$ 110	\$ 474

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2011:

Pension Assets and Liabilities at Fair Value as of December 31, 2011	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	\$ 64	\$ 1	\$ —	\$ 65
Interest bearing cash	1	—	—	1
Foreign currency contracts	—	6	—	6
Equity securities:				
Domestic equities	8,299	5	—	8,304
International equities	5,873	62	4	5,939
Fixed income securities:				
Asset-backed securities	—	413	8	421
Mortgage-backed securities	—	3,038	—	3,038
Collateralized mortgage-backed securities	—	316	—	316
Collateralized mortgage obligations/REMICs	—	490	—	490
Other Corporate and other bonds and notes	105	5,386	420	5,911
Government and municipal bonds	71	4,695	—	4,766
Private equity funds	—	1	5,931	5,932
Real estate and real assets	—	10	5,213	5,223
Commingled funds	—	6,092	393	6,485
Securities lending collateral	1,295	2,879	3	4,177
Assets at fair value	15,708	23,394	11,972	51,074
Investments sold short and other liabilities at fair value	600	6	—	606
Total plan net assets at fair value	\$15,108	\$23,388	\$11,972	\$50,468
Other assets (liabilities) ¹				(4,561)
Total Plan Net Assets				\$45,907

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

Postretirement Assets and Liabilities at Fair Value as of December 31, 2011	Level 1	Level 2	Level 3	Total
Interest bearing cash	\$ 30	\$ 340	\$ —	\$ 370
Equity securities:				
Domestic equities	2,964	1	—	2,965
International equities	2,579	1	—	2,580
Fixed income securities:				
Asset-backed securities	—	51	—	51
Collateralized mortgage-backed securities	—	60	—	60
Collateralized mortgage obligations	—	28	—	28
Other Corporate and other bonds and notes	—	334	19	353
Government and municipal bonds	48	619	—	667
Commingled funds	175	2,245	5	2,425
Private equity assets	—	3	437	440
Real assets	—	—	124	124
Securities lending collateral	780	108	—	888
Receivable for foreign exchange contracts	3	—	—	3
Assets at fair value	6,579	3,790	585	10,954
Foreign exchange contracts payable	3	—	—	3
Liabilities at fair value	3	—	—	3
Total plan net assets at fair value	\$6,576	\$3,790	\$585	\$10,951
Other assets (liabilities) ¹				(1,061)
Total Plan Net Assets				\$ 9,890

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

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2011:

Pension Assets	Equities	Fixed Income Funds	Private Equity Funds	Real Estate and Real Assets	Total
Balance at beginning of year	\$ —	\$ 441	\$ 5,617	\$4,570	\$ 10,628
Realized gains (losses)	(1)	17	164	2	182
Unrealized gains (losses)	1	(6)	448	666	1,109
Transfers in	3	393	—	—	396
Purchases	1	95	844	859	1,799
Sales	—	(116)	(1,142)	(884)	(2,142)
Balance at end of year	\$ 4	\$ 824	\$ 5,931	\$5,213	\$11,972

Postretirement Assets	Fixed Income Funds	Private Equity Funds	Real Assets	Total
Balance at beginning of year	\$ 45	\$ 496	\$ 157	\$ 698
Realized gains (losses)	—	70	(28)	42
Unrealized gains (losses)	—	(23)	31	8
Purchases	8	175	53	236
Sales	(29)	(281)	(89)	(399)
Balance at end of year	\$ 24	\$ 437	\$ 124	\$ 585

Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2012. Because benefit payments will depend on future employment and compensation levels, average years employed, average life spans, and payment elections, among other factors, changes in any of these factors could significantly affect these expected amounts. The following table provides expected benefit payments under our pension and postretirement plans:

	Pension Benefits	Postretirement Benefits	Medicare Subsidy Receipts
2013	\$ 4,697	\$2,371	\$ (18)
2014	4,395	2,249	(20)
2015	4,282	2,180	(23)
2016	4,215	2,131	(26)
2017	4,169	2,076	(30)
Years 2018 – 2022	20,286	9,924	(195)

Supplemental Retirement Plans

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

We use the same significant assumptions for the discount rate and composite rate of compensation increase used in determining the projected benefit obligation and the net pension and postemployment benefit cost. The following tables provide the plans' benefit obligations and fair value of assets at December 31 and the components of the supplemental retirement pension benefit cost. The net amount recorded as "Other noncurrent liabilities" on our consolidated balance sheets at December 31, 2012, was \$2,456 and \$2,294 at December 31, 2011.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

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

	2012	2011
Projected benefit obligation	\$(2,456)	\$(2,294)
Accumulated benefit obligation	(2,392)	(2,223)
Fair value of plan assets	—	—

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

Net Periodic Benefit Cost	2012	2011	2010
Service cost – benefits earned during the period	\$ 10	\$ 14	\$ 12
Interest cost on projected benefit obligation	116	126	134
Amortization of prior service cost (credit)	—	2	2
Actuarial (gain) loss	230	81	186
Net supplemental retirement pension cost	\$356	\$223	\$334

Other Changes Recognized in Other Comprehensive Income	2012	2011	2010
Prior service (cost) credit	\$(1)	\$6	\$(5)
Amortization of prior service cost (credit)	—	1	(2)
Total recognized in other comprehensive (income) loss (net of tax)	\$(1)	\$7	\$(7)

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

Deferred compensation expense was \$118 in 2012, \$96 in 2011 and \$96 in 2010. Our deferred compensation liability, included in "Other noncurrent liabilities," was \$1,061 at December 31, 2012, and \$1,010 at December 31, 2011.

Contributory Savings Plans

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

Our match of employee contributions to the savings plans is fulfilled with purchases of our stock on the open market or company cash. Benefit cost is based on the cost of shares or units allocated to participating employees' accounts and was \$634, \$636 and \$607 for the years ended December 31, 2012, 2011 and 2010.

NOTE 12. SHARE-BASED PAYMENTS

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

At December 31, 2012, we had various share-based payment arrangements, which we describe in the following discussion. The compensation cost recognized for those plans was included in operating expenses in our consolidated statements of income. The total income tax benefit recognized in the consolidated statements of income for share-based payment arrangements was \$195 for 2012, compared to \$187 for 2011 and \$196 for 2010.

Under our various plans, senior and other management employees and nonemployee directors have received nonvested stock and stock units. We grant performance stock units, which are nonvested stock units, based upon our stock price at the date of grant and award them in the form of AT&T common stock and cash at the end of a three-year period, subject to the achievement of certain performance goals. We treat the cash portion of these awards as a liability. We grant forfeitable restricted stock and stock units, which are valued at the market price of our common stock at the date of grant and vest typically over a two- to seven-year

period. We also grant other nonvested stock units and award them in cash at the end of a three-year period, subject to the achievement of certain market based conditions. As of December 31, 2012, we were authorized to issue up to 111 million shares of common stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested stock units) to officers, employees and directors pursuant to these various plans.

The compensation cost that we have charged against income for our share-based payment arrangements was as follows:

	2012	2011	2010
Performance stock units	\$397	\$388	\$411
Restricted stock and stock units	102	91	85
Other nonvested stock units	12	4	11
Other	—	6	6
Total	\$511	\$489	\$513

A summary of option activity as of December 31, 2012, and changes during the year then ended, is presented below (shares in millions):

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ¹
Outstanding at January 1, 2012	66	\$30.62	1.99	\$148
Exercised	(18)	—		
Forfeited or expired	(31)	—		
Outstanding at December 31, 2012	17	27.38	4.53	123
Exercisable at December 31, 2012	17	\$27.37	4.51	\$123

¹Aggregate intrinsic value includes only those options with intrinsic value (options where the exercise price is below the market price).

It is our policy to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was \$517 for 2012, \$250 for 2011 and \$55 for 2010.

A summary of the status of our nonvested stock units as of December 31, 2012, and changes during the year then ended is presented as follows (shares in millions):

Nonvested Stock Units	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2012	27	\$ 26.53
Granted	13	30.18
Vested	(13)	25.87
Forfeited	(1)	28.32
Nonvested at December 31, 2012	26	\$28.55

As of December 31, 2012, there was \$314 of total unrecognized compensation cost related to nonvested share-based payment arrangements granted. That cost is expected to be recognized over a weighted-average period of two years. The total fair value of shares vested during the year was \$333 for 2012, compared to \$360 for 2011 and \$397 for 2010.

NOTE 13. STOCKHOLDERS' EQUITY

Stock Repurchase Program From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. In December 2010, the Board of Directors authorized the repurchase of up to 300 million shares of

AT&T common stock. We began buying back stock under this program in 2012 and completed the purchase of authorized shares that year. In July 2012, the Board of Directors authorized the repurchase of an additional 300 million shares, under which we are currently purchasing shares. For the year ended December 31, 2012, we had repurchased approximately 371 million shares totaling \$12,752 under these authorizations. We expect to continue repurchasing our common stock and plan to complete the repurchases under the July 2012 authorization as early as mid-year.

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

Authorized Shares There are 14 billion authorized common shares of AT&T stock and 10 million authorized preferred shares of AT&T stock. As of December 31, 2012 and 2011, no preferred shares were outstanding.

Dividend Declarations In November 2012, the Company declared an increase in its quarterly dividend to \$0.45 per share of common stock. In December 2011, the Company declared a quarterly dividend of \$0.44 per share of common stock, which reflected an increase from the \$0.43 quarterly dividend declared in December 2010.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

NOTE 14. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Consolidated Balance Sheets	2012	2011
Accounts payable and accrued liabilities:		
Accounts payable	\$12,076	\$10,485
Accrued payroll and commissions	2,332	2,170
Current portion of employee benefit obligation	2,116	2,288
Accrued interest	1,588	1,576
Other	2,799	3,437
Total accounts payable and accrued liabilities	\$20,911	\$19,956

Consolidated Statements of Income	2012	2011	2010
Advertising expense	\$2,910	\$3,135	\$2,982
Interest expense incurred	\$3,707	\$3,697	\$3,766
Capitalized interest	(263)	(162)	(772)
Total interest expense	\$3,444	\$3,535	\$2,994

Consolidated Statements of Cash Flows	2012	2011	2010
Cash paid during the year for:			
Interest	\$3,696	\$3,722	\$3,882
Income taxes, net of refunds	458	32	3,538

Consolidated Statements of Changes in Stockholders' Equity	2012	2011	2010
Foreign currency translation adjustment	\$ (284)	\$ (371)	\$ (494)
Net unrealized gains (losses) on available-for-sale securities	272	222	316
Net unrealized gains (losses) on cash flow hedges	(110)	(421)	(180)
Defined benefit postretirement plans	5,358	3,750	3,070
Accumulated other comprehensive income	\$5,236	\$3,180	\$2,712

Labor Contracts As of January 31, 2013, we employed approximately 242,000 persons. Approximately 55 percent of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers or other unions. Contracts covering approximately 77,000 (as of December 31, 2012) employees expired during 2012 and we have reached new contracts covering approximately 57,000 of those employees. Contracts covering wireline employees in California, Connecticut and Nevada expired in April 2012 and remain

subject to negotiation. In addition, during 2012, we entered into a new national four-year contract covering only benefits with the approximately 40,000 employees in our mobility business; contracts covering wages and other non-benefit working terms for these mobility employees are structured on a regional basis and one regional contract for 20,000 employees expired during February 2013. Contracts covering approximately 30,000 non-mobility employees will expire during 2013, including approximately 20,000 wireline employees in our five-state Southwest region. On February 6, 2013, we announced a tentative agreement with the CWA covering the wireline employees in our Southwest region; this agreement is subject to ratification by these employees. After expiration of the current agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached.

American Tower Corp. Agreement In August 2000, we reached an agreement with American Tower Corp. (American Tower) under which we granted American Tower the exclusive rights to lease space on a number of our communications towers. In exchange, we received a combination of cash and equity instruments as complete prepayment of rent with the closing of each leasing agreement. The value of the prepayments was recorded as deferred revenue and recognized in income as revenue over the life of the leases. The balance of deferred revenue was \$420 in 2012, \$450 in 2011, and \$480 in 2010.

No customer accounted for more than 10% of consolidated revenues in 2012, 2011 or 2010.

NOTE 15. CONTINGENT LIABILITIES

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

We have contractual obligations to purchase certain goods or services from various other parties. Our purchase obligations are expected to be approximately \$3,744 in 2013, \$3,890 in total for 2014 and 2015, \$1,469 in total for 2016 and 2017 and \$457 in total for years thereafter.

See Note 9 for a discussion of collateral and credit-risk contingencies.

NOTE 16. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables represent our quarterly financial results:

	2012 Calendar Quarter				Annual
	First	Second	Third	Fourth ²	
Total Operating Revenues	\$31,822	\$31,575	\$31,459	\$32,578	\$127,434
Operating Income (Loss)	6,101	6,817	6,037	(5,958)	12,997
Net Income (Loss)	3,652	3,965	3,701	(3,779)	7,539
Net Income (Loss) Attributable to AT&T	3,584	3,902	3,635	(3,857)	7,264
Basic Earnings (Loss) Per Share Attributable to AT&T ¹	\$ 0.60	\$ 0.67	\$ 0.63	\$ (0.68)	\$ 1.25
Diluted Earnings (Loss) Per Share Attributable to AT&T ¹	\$ 0.60	\$ 0.66	\$ 0.63	\$ (0.68)	\$ 1.25
Stock Price					
High	\$ 31.97	\$ 36.00	\$ 38.58	\$ 38.43	
Low	29.02	29.95	34.24	32.71	
Close	31.23	35.66	37.70	33.71	

¹Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

²Includes an actuarial loss on pension and postretirement benefit plans (Note 11).

	2011 Calendar Quarter				Annual
	First	Second	Third	Fourth ²	
Total Operating Revenues	\$31,247	\$31,495	\$31,478	\$32,503	\$126,723
Operating Income (Loss)	5,808	6,165	6,235	(8,990)	9,218
Net Income (Loss)	3,468	3,658	3,686	(6,628)	4,184
Net Income (Loss) Attributable to AT&T	3,408	3,591	3,623	(6,678)	3,944
Basic Earnings (Loss) Per Share Attributable to AT&T ¹	\$ 0.57	\$ 0.60	\$ 0.61	\$ (1.12)	\$ 0.66
Diluted Earnings (Loss) Per Share Attributable to AT&T ¹	\$ 0.57	\$ 0.60	\$ 0.61	\$ (1.12)	\$ 0.66
Stock Price					
High	\$ 30.97	\$ 31.94	\$ 31.78	\$ 30.30	
Low	27.20	29.91	27.29	27.41	
Close	30.61	31.41	28.52	30.24	

¹Quarterly earnings per share impacts may not add to full-year earnings per share impacts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

²Includes an actuarial loss on pension and postretirement benefit plans (Note 11), T-Mobile breakup fee (Note 4) and impairment of intangible assets (Note 6).

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

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

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

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

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

Assessment of Internal Control


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

AT&T management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2012. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on its assessment, AT&T management believes that, as of December 31, 2012, the Company's internal control over financial reporting is effective based on those criteria.

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



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



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

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

We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2013 expressed an unqualified opinion thereon.

Ernst + Young LLP

Dallas, Texas
February 22, 2013

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

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

We have audited AT&T Inc.'s (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 22, 2013 expressed an unqualified opinion thereon.

Ernst & Young LLP

Dallas, Texas
February 22, 2013

Randall L. Stephenson, 52 ⁽⁴⁾



Chairman of the Board,
Chief Executive Officer and President
AT&T Inc.
Dallas, Texas

Director since 2005

Background: Telecommunications

Jaime Chico Pardo, 63 ^(1,2)



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

John B. McCoy, 69 ^(3,4,5)



Retired Chairman and
Chief Executive Officer
Bank One Corporation
Director since 1999

Ameritech Director 1991–1999

Background: Banking

James H. Blanchard, 71 ^(2,4,5)



Lead Director
Chairman of the Board
and Partner
Jordan-Blanchard Capital, LLC

Director since 2006

BellSouth Corporation Director 1994–2006

BellSouth Telecommunications

Director 1988–1994

Background: Financial services

Scott T. Ford, 50 ^(2,6)



Partner
Westrock Capital Partners, LLC
Director since June 2012
Background: Telecommunications

Joyce M. Roché, 65 ^(3,6)



Retired President and
Chief Executive Officer
Girls Incorporated
Director since 1998

Southern New England Telecommunications

Director 1997–1998

Background: Marketing

James P. Kelly, 69 ^(1,3)



Retired Chairman of the Board
and Chief Executive Officer
United Parcel Service, Inc.
Director since 2006

BellSouth Corporation Director 2000–2006

Background: Air delivery and freight services

Matthew K. Rose, 53 ^(2,5)



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

Gilbert F. Amelio, Ph.D., 70 ^(2,4,5)



Former Senior Partner
Sienna Ventures
Director since 2001
Advisory Director 1997–2001

Pacific Telesis Director 1995–1997

Background: Technology, electronics engineering

Jon C. Madonna, 69 ^(1,3,4)



Retired Chairman and
Chief Executive Officer
KPMG
Director since 2005

AT&T Corp. Director 2002–2005

Background: Public accounting

Laura D'Andrea Tyson, Ph.D., 65 ^(1,6)



S. K. and Angela Chan Professor of
Global Management
Haas School of Business
University of California at Berkeley

Director since 1999

Ameritech Director 1997–1999

Background: Economics, education

Reuben V. Anderson, 70 ^(3,4,6)



Senior Partner
Phelps Dunbar, LLP
Director since 2006
BellSouth Corporation

Director 1994–2006

Background: Law

Michael B. McCallister, 60 ⁽¹⁾



Chairman of the Board
Humana Inc.
Director since February 2013
Background: Health care

Committees of the Board:

- (1) Audit
- (2) Corporate Development and Finance
- (3) Corporate Governance and Nominating
- (4) Executive
- (5) Human Resources
- (6) Public Policy and Corporate Reputation

(Information is provided
as of March 11, 2013.)

Executive Officers of AT&T Inc. and Its Affiliates

Randall Stephenson, 52

Chairman, Chief Executive Officer
and President

Cathy Coughlin, 55

Senior Executive Vice President
and Global Marketing Officer

Andy Geisse, 56

Chief Executive Officer-
AT&T Business Solutions

John Stephens, 53

Senior Executive Vice President
and Chief Financial Officer

Bill Blase Jr., 57

Senior Executive Vice President-
Human Resources

Ralph de la Vega, 61

President and Chief Executive Officer,
AT&T Mobility

Lori Lee, 47

Executive Vice President-
Home Solutions

Wayne Watts, 59

Senior Executive Vice President
and General Counsel

Jim Cicconi, 60

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

John Donovan, 52

Senior Executive Vice President-
AT&T Technology and
Network Operations

John Stankey, 50

Group President and
Chief Strategy Officer

(Information is provided as
of February 22, 2013.)