



mobilizing your world

AT&T Inc. 2015 Annual Report



Randall Stephenson
Chairman, Chief Executive Officer
and President

TO OUR INVESTORS

2015 was an eventful year for our company.

We closed our acquisition of DIRECTV and bought two companies that give us access to the Mexican wireless market. We were successful in the U.S. government's auction of wireless airwaves, enhancing our industry-best portfolio of this valuable resource. Combined with our major investments over the past 5 years in our wireless, fiber and Internet Protocol (IP) networks, we have assembled the pieces to claim leadership as the top integrated communications company in the world. We believe it is important for you to understand our core business strategy and the competitive advantages that come from being an integrated communications company. We also want to reiterate how our business strategy and our capital allocation strategy work together to create value for you, our owners.

Connect people with their world, everywhere they live, work and play... and do it better than anyone else.

This is our mission. It's a simple but ambitious statement. We've invested heavily to build and assemble the assets and people we need to connect our customers to everything – and to connect them faster, more reliably and more securely than ever before. We are moving beyond the smartphone era into a world where billions of devices will be connected to networks around the globe. The future demands instantaneous connectivity for everything – from drones to self-driving cars to virtual reality devices. Only an integrated communications company can provide the end-to-end connectivity this exciting new world demands.

OUR STRATEGY

To become the premier integrated communications company in the world, we've invested in 5 key areas:

Lead in connectivity and integrated solutions.

It all begins with connectivity. Premier network assets are the foundation for delivering the integrated mobile, video and data solutions our customers want. Today, every time our customers access their content, we use one or all of the following technologies to connect them – wireless LTE, Wi-Fi, satellite, IP networks and fiber optics. But our customers should not know or care about any of this. Our job is to simply deliver seamless connectivity to every device and sensor in their office, car, home – you name it – and help ensure it is fast, highly secure and reliable.

We've invested significantly over the past few years to make this possible. As a result, today we can offer:

- Ubiquitous, mobile, fast and highly secure connectivity to 355 million people and businesses in the United States and Mexico – a seamless, cross-border North American network that's unique in the marketplace.

- High-speed fiber connections to more than 1 million U.S. business locations.
- Global IP network services that connect businesses on 6 continents representing 99% of the world's economy.
- High-speed Internet connections to more than 57 million U.S. customer locations.
- Highly efficient satellites capable of delivering HD and Ultra-HD video covering nearly everyone in the United States and Latin America.

Serve our customers globally.

Our customers are global and so are we. That's why we continue to invest to ensure that we can provide integrated solutions that connect people and businesses around the world. We are a leader in transforming our network from hardware- to software-centric. This software-defined network makes it easier for us to offer our products globally. Our global focus is why we're the leader in serving multinational businesses.

Operate with an industry-leading cost structure.

We're focused on building a modern network architecture that will provide the highest efficiency and productivity in the industry. To make that happen, we're moving forward on a number of fronts. The biggest by far is transforming our network from hardware- to software-centric. This will allow us to deliver the most network traffic at the lowest marginal cost in the industry. Additionally, we're streamlining operations, simplifying offers, getting the best prices from our supply chain, automating customer self-service and making more interactions digital to reduce the time it takes to provide service.

And that's on top of the \$2.5 billion in annual synergies we anticipate by the end of 2018 from the integration of DIRECTV. That includes taking advantage of our scale to achieve the industry's best video content costs, and efficiencies from streamlining installation and customer care. In 2015, we largely eliminated subsidized mobile handsets, letting us turn the corner on our cost trajectory and deliver the best-ever EBITDA service margins in our wireless business.

Deliver an effortless customer experience.

This underpins everything we do. When we design products, processes or a user experience, we build "effortless" into every touch point. Whether a customer is searching for a product, viewing content, interacting with customer care or having service installed – it must be simple, seamless and effortless. To make *effortless* a competitive advantage requires continuous investment and improvement. Over the next couple of years, it will take a lot of work to make this a reality as we integrate DIRECTV into the overall customer experience, but we've allocated the capital and resources to make it happen.

Equip our people for the future.

As the pace of technological change accelerates, we're equipping our people with the skills they need to succeed in the years ahead. We're utilizing innovative training and building profiles of future job requirements to help our employees pivot their skills from hardware to software, from legacy wireline to mobile, and from data recorders to data scientists.



EXECUTING OUR STRATEGY

To execute our strategy, we've organized our company around our customers.

Each business unit serves a distinct, growing market, but a common thread runs through them all – the ability to offer customers integrated solutions that are tailored to their needs and effortless to use.

Business Solutions is our largest segment, representing over \$71 billion of total revenues in 2015. Serving business customers is a sweet spot for us because we have the mobile and IP networks, and the integrated solutions businesses need to compete. And we've recently launched some of the most innovative products and platforms in the industry. For example, our Network on Demand solution gives customers the flexibility to dial bandwidth up or down on their own, as needed, on a near real-time basis. And our AT&T NetBond® service provides a highly secure connection from the mobile handset to a customer's cloud provider of choice, offering end-to-end security. We also offer a global wireless solution that allows businesses to connect everything from cars to cargo containers around the world. And we are taking a unique, tailored approach to certain industries – from retail to education – and providing specialized solutions to meet their needs.

These efforts build on our global customer base of 3.5 million businesses – including nearly all the Fortune 1000 – in nearly 200 countries and territories.



AT&T's *Entertainment Group* is our second-largest segment following last year's DIRECTV acquisition. We're now the largest pay TV provider in the United States and the world.

That, combined with our nationwide mobility business and high-speed Internet service available to more than 57 million U.S. locations, gives us assets like no one else and the opportunity to deliver solutions that are more integrated than ever.

With the added scale in video we gained from DIRECTV, we're planning to launch a variety of new video entertainment packages later this year that give people more content choices and price points. We plan to serve every segment of the video market – from customers who want a premium video experience over TV, Internet and mobile, to people who want only to watch entertainment over the Internet or only on a mobile device. We'll deliver content over networks we own and operate, and over the Internet service of other companies. And we can deliver unique content that ranges from our exclusive rights to DIRECTV's NFL SUNDAY TICKET to popular short-form videos. As consumers' video preferences evolve further, we're positioned to ensure our customers have access to their favorite content – virtually wherever and whenever they want it.

Our third segment, *Consumer Mobility*, delivered strong results last year in a very competitive environment, building on our smartphone customer base. In the postpaid mobility sector, our focus on high-value customers, combined with smart cost



AT&T Leadership Team

Left to Right: José Gutiérrez, Senior Executive Vice President-Executive Operations, AT&T Services, Inc.; Bill Blase Jr., Senior Executive Vice President-Human Resources; David Huntley, Chief Compliance Officer; John Donovan, Chief Strategy Officer and Group President-AT&T Technology and Operations; Randall Stephenson, Chairman, Chief Executive Officer and President; John Stephens, Senior Executive Vice President and Chief Financial Officer; Lori Lee, Senior Executive Vice President and Global Marketing Officer; David McAtee II, Senior Executive Vice President and General Counsel; Ralph de la Vega, Vice Chairman, AT&T Inc. and Chief Executive Officer, AT&T Business Solutions and AT&T International, LLC; John Stankey, Chief Executive Officer-AT&T Entertainment Group, AT&T Services, Inc.; Jim Cicconi, Senior Executive Vice President-External and Legislative Affairs, AT&T Services, Inc.

management, helped us keep customer churn low and deliver record EBITDA margins. And in prepaid, where customers are more cost-conscious, our Cricket wireless brand is helping us add customers faster than anyone else in the industry. Our approach to every segment of the mobility market is working, allowing us to effectively utilize our assets and investments, and operate profitably in all categories.

Finally, our *International* segment – which now comprises our wireless operations in

Mexico and DIRECTV in Latin America – offers us additional opportunities for growth. As we envisioned, Mexico is proving to be a great place to invest, with its investment-friendly regulatory environment, growing economy, expanding middle class and underserved smartphone market. We're still in the early stages of our investment cycle in Mexico, but we're moving fast. Our LTE network in Mexico will cover 75 million people by the end of 2016. What's particularly exciting is that we're changing the market in Mexico – introducing new plans that allow customers to use their

mobile device in the United States and Canada, as if they were in Mexico. And it's all enabled by our network's ability to provide fast and highly secure mobile LTE connectivity to 355 million people and businesses in the United States and Mexico.

Meanwhile, our DIRECTV operations in Latin America are good, self-sustaining franchises. Despite operating in a region of the world with challenged economies, our local management teams are experienced operators in these environments and know the markets well. This gives us the confidence to be patient as we evaluate options for how best to take advantage of these quality businesses in the future.

CAPITAL ALLOCATION

Our capital allocation approach is very straightforward. Our first priority is to invest for growth.

We operate in a highly capital-intensive industry. Leadership over the long term requires consistent, sustained investment. In fact, over the last 5 years, we have invested over \$140 billion, including capital investments in our wireless and wireline networks and acquisitions of wireless spectrum and operations, to build out one of the most advanced wireless, fiber and IP networks in the world. We believe it is critical to lead in developing new technologies to ensure we have the integrated products and services that will set us apart and give us the lowest cost structure with the greatest efficiency and productivity in the industry. As we look out over the next 3 years, we anticipate that our capital spending will continue to run around 15% of our service revenues.

Our second priority is to provide a consistent cash return to our owners through a methodical dividend policy.

We have increased the quarterly dividend for 32 consecutive years, and we are proud of that achievement.



In 2014, as we invested significantly to build out our wireless, fiber and IP networks, our dividend payout as a percentage of cash flows moved above our historic average. But in 2015, our ratio moved back in line with our normal targeted levels, as we completed those major investment projects. Going forward, we expect our dividend payout to be in the 70s as a percentage of free cash flow.

In a highly capital-intensive industry where the ability to invest is a competitive advantage, we believe a strong balance sheet with high-quality investment-grade debt is critical. As a result of last year's DIRECTV acquisition, we increased our debt levels higher than our historical norm. However, we're confident that our future cash flows are sufficient to bring those debt levels back into our traditional target range over the next 3 years. In fact, for the next 3 years, we're planning to use nearly all of our cash flow after dividends to pay down debt.

Finally, we have a strong history of returning cash to our owners through share repurchases when our cash flows exceed the capital requirements of the business, plus the dividend and debt retirements.

Historically, we've kept our balance sheet strong and demonstrated disciplined, systematic investment throughout the various business cycles.

This has enabled us to maintain a market-leading position in good times and bad. In fact, through the most recent financial crisis, our strong balance sheet let us invest at record levels to meet customer demand as smartphone usage exploded.

As a result, we came out of the financial crisis with one of the highest-quality smartphone customer bases in the world and a best-in-class network. This is an investment pattern that we have repeated time and again.

Our overriding priority is to create value for you, our shareholders.

We recognize that how we allocate and invest capital is critical to generating those returns. To that end, we tie most of our executive team's compensation to achieving a targeted return on invested capital. Rest assured, we are motivated and very focused on providing returns on your investment.

FINANCIAL OUTLOOK

Our integrated provider strategy, combined with growing contributions from DIRECTV and our wireless operations in Mexico, will help us continue the strong momentum we had in 2015.

Last year, we grew revenues, expanded margins and increased earnings in one of the most transformative years in our company's history. We also achieved strong free cash flow as we continued to invest for growth and return value to shareholders.

Over the next 3 years, we expect that our strategy will help us deliver continued solid revenue growth, adjusted earnings per share growth and margin expansion.



What you *won't* see us do is let a focus on short-term results keep us from investing in growth. Our financial outlook may change should we identify opportunities that require investment above what's anticipated today. But we're a company that's never been afraid to take the long-term view of our business, and that won't change.

Above all, we're committed to sustaining the long-term health of our business so we can deliver above-market returns to our owners.

OUR TEAM

I'm very confident that we have the right strategy – and the right team to deliver against it.

For a number of years now, we've deliberately built a talented and diverse board of directors with deep expertise in critical areas – from technology and capital markets, to public affairs and marketing. We have a board with the right mix of backgrounds, perspectives and skill sets to provide informed counsel on strategic moves in a rapidly changing industry. The board thoroughly reviews and approves our strategic plans in multiple sessions throughout the year. Those sessions encourage extensive board discussion and debate to ensure the management team is executing against the right strategy.

Our board is complemented by the best management team in the industry. It's a team that brings together some of the sharpest minds around, with a wealth of knowledge about our business and a relentless passion for continuously improving our operations and creating shareholder value.

Add to that a talented and dedicated AT&T workforce – 280,000 strong. Our employees bring their very best game to work, day in and day out, and they are one more big reason why I couldn't be more excited about our future.

I look forward to sharing with you the next chapters in the AT&T story. And I'm grateful for your continued confidence in our company.

Sincerely,



Randall Stephenson
Chairman, Chief Executive Officer
and President
February 12, 2016

STOCKHOLDER INFORMATION

Toll-Free Stockholder Hotline

Call us at 1-800-351-7221 between 8 a.m. and 7 p.m. Central time, Monday through Friday (TDD 1-888-403-9700) for help with:

- Common stock account inquiries
- Requests for assistance with your common stock account, including stock transfers
- Information on The DirectSERVICE™ Investment Program for Stockholders of AT&T Inc. (sponsored and administered by Computershare Trust Company, N.A.)

Written Stockholder Requests

Please mail all account inquiries and other requests for assistance regarding your stock ownership to:

AT&T Inc.
c/o Computershare
Trust Company, N.A.

P.O. Box 43078
Providence, RI 02940-3078

You may also reach the transfer agent for AT&T Inc. at att@computershare.com or visit the website at www.computershare.com/att

DirectSERVICE Investment Program

The DirectSERVICE Investment Program for Stockholders of AT&T Inc. is sponsored and administered by Computershare Trust Company, N.A. The program allows current stockholders to reinvest dividends, purchase additional AT&T Inc. stock or enroll in an individual retirement account. For more information, call 1-800-351-7221.

Stock Trading Information

AT&T Inc. is listed on the New York Stock Exchange. Ticker symbol: T

Information on the Internet

Information about AT&T Inc. is available on the Internet at www.att.com

Annual Meeting

The annual meeting of stockholders will be held at 9 a.m. local time Friday, April 29, 2016, at:

Northern Hotel
Grand Ballroom
19 North Broadway
Billings, MT 59101

SEC Filings

AT&T Inc.'s U.S. Securities and Exchange Commission filings, including the latest 10-K and proxy statement, are available on our website at www.att.com/investor.relations

Investor Relations

Securities analysts and other members of the professional financial community may contact the Investor Relations staff as listed on our website at www.att.com/investor.relations

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