AT&T INC. FINANCIAL REVIEW 2016

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, including the results of DIRECTV and wireless properties in Mexico for the period from acquisition to the reporting date. Our subsidiaries and affiliates operate in the communications and digital entertainment services industry, providing services and equipment that deliver voice, video and broadband services domestically and internationally.

All significant intercompany transactions are eliminated in the consolidation process. Investments in less than majority-owned subsidiaries and partnerships where we have significant influence are accounted for under the equity method. Earnings from certain investments accounted for using the equity method are included for periods ended within up to one quarter of our period end. 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 and cumulative translation adjustments.

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

Network Asset Lives and Salvage Values During the fourth quarter of 2016, we aligned the estimated useful lives and salvage values for certain network assets that are impacted by our IP strategy with our updated business cases and engineering studies. This change in accounting estimate decreased depreciation expense and impacted net income $286, or $0.05 per diluted share, for 2016.

Customer Fulfillment Costs During the second quarter of 2016, we updated our analysis of the economic lives of customer relationships, which included a review of satellite customer data following the DIRECTV acquisition. As of April 1, 2016, we extended the amortization period to better reflect the estimated economic lives of satellite and certain business customer relationships. This change in accounting estimate decreased other cost of services and impacted net income $236, or $0.04 per diluted share, for 2016.

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 (included, together with our deferred income tax assets, as part of our reportable net deferred income tax liabilities on our consolidated balance sheets), for which the realization is uncertain. We review these items regularly in light of changes in federal and state tax laws and changes in our business.

Cash and Cash Equivalents Cash and cash equivalents include all highly liquid investments with original maturities of three months or less. The carrying amounts approximate fair value. At December 31, 2016, we held $1,803 in cash and $3,985 in money market funds and other cash equivalents. Of our total cash and cash equivalents, $776 resided in foreign jurisdictions, some of which is subject to restrictions on repatriation.

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

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

We offer to our customers the option to purchase certain wireless devices in installments over a period of up to 30 months, and, in many cases, they have the right to trade in the original equipment within a set period and have the remaining unpaid balance satisfied upon the purchase of a new device under a new installment plan. For customers that elect these equipment installment payment programs, we recognize revenue for the entire amount of the customer receivable, net of fair value of the trade-in right guarantee and imputed interest.

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

Inventory Inventories, which are included in "Other current assets" on our consolidated balance sheets, were $2,039 at December 31, 2016, and $4,033 at December 31, 2015. Wireless devices and accessories, which are valued at the lower of cost or net realizable value, were $1,951 at December 31, 2016, and $3,998 at December 31, 2015.

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

Property, plant and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset group 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.

During the fourth quarter of 2016, we identified certain assets for impairment. These assets primarily related to capitalized costs for wireless sites that are no longer in our construction plans. (See Note 6)

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

We amortize our capitalized software costs over a three-year to five-year period, reflecting the estimated period during which these assets will remain in service, which also aligns with the estimated useful lives used in the industry.

Goodwill and Other Intangible Assets AT&T has five major classes of intangible assets: goodwill; licenses, which include Federal Communications Commission (FCC) and other wireless licenses and orbital slots; other indefinite-lived intangible assets, primarily made up of the AT&T and international DIRECTV trade names including SKY; customer lists and various other finite-lived intangible assets (see Note 7).

Goodwill represents the excess of consideration paid over the fair value of identifiable net assets acquired in business combinations. Wireless licenses (including FCC licenses) provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While wireless licenses are issued for a fixed period of time (generally 10 years), renewals of wireless 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 wireless licenses. Orbital slots represent the space in which we operate the broadcast satellites that support our digital video entertainment service offerings. Similar to our wireless licenses, there are no factors that limit the useful lives of our orbital slots. We acquired the rights to the AT&T and other trade names in previous acquisitions. We have the effective ability to retain these exclusive rights permanently at a nominal cost.

Goodwill, 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 or one level below them (Business Solutions, Entertainment Group, Consumer Mobility, and Mexico Wireless, Brazil and PanAmericana in the International segment), to the fair value using both discounted cash flow as well as market multiple approaches. Wireless licenses are tested on an aggregate basis, consistent with our use of the licenses on a national scope, using a discounted cash flow approach. Orbital slots are similarly aggregated for purposes of impairment testing. We also corroborate the value of wireless licenses with a market approach as the AWS-3 auction provided market price information for national wireless licenses. Trade names are tested by comparing the book value to a fair value calculated using a discounted cash flow approach on a presumed royalty rate derived from the revenues related to the brand name.

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

Broadcast Programming and Other Costs We recognize the costs of television programming distribution rights when we distribute the related programming. We expense the costs of television programming rights to distribute live sporting events using the straight-line method over the course of the season or tournament, which approximates the pattern of usage.

Advertising Costs We expense advertising costs for products and services or for promoting our corporate image as we incur them (see Note 18).

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

Foreign Currency Translation We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. Our foreign subsidiaries and foreign investments generally report their earnings in their local currencies. We translate their foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate their revenues and expenses using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated other comprehensive income (accumulated OCI) in the accompanying consolidated balance sheets (see Note 3). Operations in countries with highly inflationary economies consider the U.S. dollar as the functional currency.

We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a portion of the foreign currency exchange risk involved in anticipation of highly probable foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 10).

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

New Accounting Standards
Cash Flows In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" (ASU 2016-15), which provides guidance related to cash flows presentation and is effective for annual reporting periods beginning after December 15, 2017, subject to early adoption. The majority of the guidance in ASU 2016-15 is consistent with our current cash flow classifications. However, cash receipts on the deferred purchase price described in Note 15 will be classified as cash flows from investing activities instead of our current presentation as cash flows from operations. Under ASU 2016-15, we will continue to recognize cash receipts on owned equipment installment receivables as cash flows from operations. AT&T's cash flows from operating activities included cash receipts on the deferred purchase price of $731 for the year ended December 31, 2016, and $536 for the year ended December 31, 2015.

Leases In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" (ASU 2016-02), which replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements. ASU 2016-02 will require lessees to recognize most leases on their balance sheets as liabilities, with corresponding "right-of-use" assets and is effective for annual reporting periods beginning after December 15, 2018, subject to early adoption. For income statement recognition purposes, leases will be classified as either a finance or an operating lease without relying upon the bright-line tests under current GAAP.

Upon initial evaluation, we believe the key change upon adoption will be the balance sheet recognition. At adoption, we will recognize a right-to-use asset and corresponding lease liability on our consolidated balance sheets. The income statement recognition of lease expense appears similar to our current methodology. We are continuing to evaluate the magnitude and other potential impacts to our financial statements.

Revenue Recognition In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" (ASC 606) and has modified the standard thereafter. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. ASC 606, as amended, becomes effective for annual reporting periods beginning after December 15, 2017, at which point we plan to adopt the standard.

The FASB allows two adoption methods under ASC 606. We currently plan to adopt the standard using the "modified retrospective method." Under that method, we will apply the rules to all contracts existing as of January 1, 2018, recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and providing additional disclosures comparing results to previous accounting standards.

Upon initial evaluation, we believe the key changes in the standard that impact our revenue recognition relate to the allocation of contract revenues between various services and equipment, and the timing of when those revenues are recognized. We are still in the process of determining the impacts due to the ongoing changes in how the industry sells devices and services to customers. As a result of our accounting policy change for customer set-up and installation costs made in 2015, we believe that the requirement to defer such costs under the new standard will not result in a significant change to our results. However, the requirement to defer incremental contract acquisition costs and recognize them over the contract period or expected customer life will result in the recognition of a deferred charge on our balance sheets.

Financial Instruments In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01), which will require us to record changes in the fair value of our equity investments, except for those accounted for under the equity method, in net income instead of in accumulated other comprehensive income. ASU 2016-01 will become effective for fiscal years and interim periods beginning after December 15, 2017, and, with the exception of certain disclosure requirements, is not subject to early adoption.

NOTE 2. EARNINGS PER SHARE

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

Year Ended December 31,	**2016**	2015	2014
Numerators			
Numerator for basic earnings per share:			
Net income	**$13,333**	$13,687	$6,736
Less: Net income attributable to noncontrolling interest	**(357)**	(342)	(294)
Net income attributable to AT&T	**12,976**	13,345	6,442
Dilutive potential common shares:			
Share-based payment	**13**	13	13
Numerator for diluted earnings per share	**$12,989**	$13,358	$6,455
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	**6,168**	5,628	5,205
Dilutive potential common shares:			
Share-based payment (in shares)	**21**	18	16
Denominator for diluted earnings per share	**6,189**	5,646	5,221
Basic earnings per share attributable to AT&T	**$ 2.10**	$ 2.37	$ 1.24
Diluted earnings per share attributable to AT&T	**$ 2.10**	$ 2.37	$ 1.24

Dollars in millions except per share amounts

NOTE 3. OTHER COMPREHENSIVE INCOME

Changes in the balances of each component included in accumulated OCI are presented below. All amounts are net of tax and exclude noncontrolling interest.

Following our 2015 acquisitions of DIRECTV and wireless businesses in Mexico, we have additional foreign operations that are exposed to fluctuations in the exchange rates used to convert operations, assets and liabilities into U.S. dollars. Since the dates of acquisition, when compared to the U.S. dollar, the Brazilian real exchange rate has appreciated 17.9%, the Argentine peso exchange rate has depreciated 22.8% and Mexican peso exchange rate has depreciated 20.5%.

	Foreign Currency Translation Adjustment	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of December 31, 2013	$ (367)	$ 450	$ 445	$ 7,352	$ 7,880
Other comprehensive income (loss) before reclassifications	(75)	65	260	428	678
Amounts reclassified from accumulated OCI	416[1]	(16)[1]	36[2]	(933)[3]	(497)
Net other comprehensive income (loss)	341	49	296	(505)	181
Balance as of December 31, 2014	(26)	499	741	6,847	8,061
Other comprehensive income (loss) before reclassifications	(1,172)	—	(763)	45	(1,890)
Amounts reclassified from accumulated OCI	—[1]	(15)[1]	38[2]	(860)[3]	(837)
Net other comprehensive income (loss)	(1,172)	(15)	(725)	(815)	(2,727)
Balance as of December 31, 2015	(1,198)	484	16	6,032	5,334
Other comprehensive income (loss) before reclassifications	(797)	58	690	497	448
Amounts reclassified from accumulated OCI	—[1]	(1)[1]	38[2]	(858)[3]	(821)
Net other comprehensive income (loss)	(797)	57	728	(361)	(373)
Balance as of December 31, 2016	**$(1,995)**	**$541**	**$744**	**$5,671**	**$4,961**

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

NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer products and services to different customer segments over various technology platforms and/or in different geographies that are managed accordingly. We analyze our segments based on Segment Contribution, which consists of operating income, excluding acquisition-related costs and other significant items (as discussed below), and equity in net income (loss) of affiliates for investments managed within each segment. We have four reportable segments: (1) Business Solutions, (2) Entertainment Group, (3) Consumer Mobility and (4) International.

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

The *Business Solutions segment* provides services to business customers, including multinational companies; governmental and wholesale customers; and individual subscribers who purchase wireless services through employer-sponsored plans. We provide advanced IP-based services including Virtual Private Networks (VPN); Ethernet-related products and broadband, collectively referred to as fixed strategic services; as well as traditional data and voice products. We utilize our wireless and wired networks (referred to as “wired” or “wireline”) to provide a complete communications solution to our business customers.

The *Entertainment Group segment* provides video, internet, voice communication, and interactive and targeted advertising services to customers located in the United States or in U.S. territories. We utilize our copper and IP-based wired network and/or our satellite technology.

The *Consumer Mobility segment* provides nationwide wireless service to consumers and wholesale and resale wireless subscribers located in the United States or in U.S. territories. We utilize our networks to provide voice and data services, including high-speed internet, video and home monitoring services over wireless devices.

The *International segment* provides entertainment services in Latin America and wireless services in Mexico. Video entertainment services are provided to primarily residential customers using satellite technology. We utilize our regional and national wireless networks in Mexico to provide consumer and business customers with wireless data and voice communication services. Our international subsidiaries conduct business in their local currency, and operating results are converted to U.S. dollars using official exchange rates.

In reconciling items to consolidated operating income and income before income taxes, *Corporate and Other* includes: (1) operations that are not considered reportable segments and that are no longer integral to our operations or which we no longer actively market, and (2) impacts of corporate-wide decisions for which the individual segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

Certain operating items are not allocated to our business segments, and those include:

- *Acquisition-related items* which consist of (1) items associated with the merger and integration of acquired businesses and (2) the noncash amortization of intangible assets acquired in acquisitions.
- *Certain significant items* which consist of (1) noncash actuarial gains and losses from pension and other postretirement benefits, (2) employee separation charges associated with voluntary and/or strategic offers, (3) losses resulting from abandonment or impairment of assets and (4) other items for which the segments are not being evaluated.

Interest expense and other income (expense) – net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results.

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

For the year ended December 31, 2016

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	**$ 70,988**	**$ 44,330**	**$26,658**	**$ 9,832**	**$16,826**	**$ —**	**$16,826**
Entertainment Group	**51,295**	**39,338**	**11,957**	**5,862**	**6,095**	**9**	**6,104**
Consumer Mobility	**33,200**	**19,659**	**13,541**	**3,716**	**9,825**	**—**	**9,825**
International	**7,283**	**6,830**	**453**	**1,166**	**(713)**	**52**	**(661)**
Segment Total	**162,766**	**110,157**	**52,609**	**20,576**	**32,033**	**$61**	**$32,094**
Corporate and Other	**1,043**	**1,173**	**(130)**	**65**	**(195)**		
Acquisition-related items	**—**	**1,203**	**(1,203)**	**5,177**	**(6,380)**		
Certain significant items	**(23)**	**1,059**	**(1,082)**	**29**	**(1,111)**		
AT&T Inc.	**$163,786**	**$113,592**	**$50,194**	**$25,847**	**$24,347**		

Dollars in millions except per share amounts

For the year ended December 31, 2015

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 71,127	$ 44,946	$26,181	$ 9,789	$ 16,392	$ —	$16,392
Entertainment Group	35,294	28,345	6,949	4,945	2,004	(4)	2,000
Consumer Mobility	35,066	21,477	13,589	3,851	9,738	—	9,738
International	4,102	3,930	172	655	(483)	(5)	(488)
Segment Total	145,589	98,698	46,891	19,240	27,651	$ (9)	$27,642
Corporate and Other	1,297	1,057	240	64	176		
Acquisition-related items	(85)	1,987	(2,072)	2,712	(4,784)		
Certain significant items	—	(1,742)	1,742	—	1,742		
AT&T Inc.	$146,801	$100,000	$46,801	$22,016	$ 24,785		

For the year ended December 31, 2014

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	$ 70,606	$ 45,826	$24,780	$ 9,355	$ 15,425	$ —	$15,425
Entertainment Group	22,233	18,992	3,241	4,473	(1,232)	(2)	(1,234)
Consumer Mobility	36,769	23,891	12,878	3,827	9,051	(1)	9,050
International	—	—	—	—	—	153	153
Segment Total	129,608	88,709	40,899	17,655	23,244	$150	$23,394
Corporate and Other	2,839	2,471	368	105	263		
Acquisition-related items	—	785	(785)	487	(1,272)		
Certain significant items	—	9,997	(9,997)	26	(10,023)		
AT&T Inc.	$132,447	$101,962	$30,485	$18,273	$ 12,212		

The following table is a reconciliation of operating income (loss) to "Income Before Income Taxes" reported in our consolidated statements of income:

	2016	2015	2014
Business Solutions	**$16,826**	$16,392	$15,425
Entertainment Group	**6,104**	2,000	(1,234)
Consumer Mobility	**9,825**	9,738	9,050
International	**(661)**	(488)	153
Segment Contribution	**32,094**	27,642	23,394
Reconciling Items:			
Corporate and Other	**(195)**	176	263
Merger and integration charges	**(1,203)**	(2,072)	(785)
Amortization of intangibles acquired	**(5,177)**	(2,712)	(487)
Actuarial gain (loss)	**(1,024)**	2,152	(7,869)
Employee separation costs	**(344)**	(375)	—
Gain on wireless spectrum transactions	**714**	—	—
Storm related and other items	**(67)**	—	—
Asset abandonments and impairments	**(390)**	(35)	(2,154)
Segment equity in net income (loss) of affiliates	**(61)**	9	(150)
AT&T Operating Income	**24,347**	24,785	12,212
Interest expense	**4,910**	4,120	3,613
Equity in net income of affiliates	**98**	79	175
Other income (expense) – net	**277**	(52)	1,581
Income Before Income Taxes	**$19,812**	$20,692	$10,355

The following table sets forth revenues earned from subscribers, and property, plant and equipment located in different geographic areas.

	2016		2015		2014	
	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment
United States	**$154,039**	**$118,664**	$140,234	$118,515	$129,772	$112,092
Latin America						
Brazil	**2,797**	**1,265**	1,224	1,384	142	33
Other	**2,348**	**1,828**	1,157	1,530	99	67
Mexico	**2,472**	**2,520**	2,046	2,369	94	20
Other	**2,130**	**622**	2,140	652	2,340	686
Total	**$163,786**	**$124,899**	$146,801	$124,450	$132,447	$112,898

NOTE 5. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

DIRECTV In July 2015, we completed our acquisition of DIRECTV, a leading provider of digital television entertainment services in both the United States and Latin America. For accounting purposes, the transaction was valued at $47,409. Our consolidated balance sheets include the assets and liabilities of DIRECTV, which have been measured at fair value.

The fair values of the assets acquired and liabilities assumed were determined using income, cost and market approaches. The fair value measurements were primarily based on significant inputs that are not observable in the market and are considered Level 3 under the Fair Value Measurement and Disclosure framework, other than long-term debt assumed in the acquisition (see Note 10). The income approach was primarily used to value the intangible assets, consisting primarily of acquired customer relationships, orbital slots and trade names. The income approach estimates fair value for an asset based on the present value of cash flows projected to be generated by the asset. Projected cash flows are discounted at a required rate of return that reflects the relative risk of achieving the cash flows and the time value of money. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used primarily for plant, property and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation.

Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the fair value of the net assets acquired, and represents the future economic benefits that we expect to achieve as a result of acquisition. Purchased goodwill is not expected to be deductible for tax purposes. The goodwill was allocated to our Entertainment Group and International segments.

The following table summarizes the fair values of the DIRECTV assets acquired and liabilities assumed and related deferred income taxes as of the acquisition date.

Assets acquired	
Cash	$ 4,797
Accounts receivable	2,038
All other current assets	1,534
Property, plant and equipment (including satellites)	9,320
Intangible assets not subject to amortization	
Orbital slots	11,946
Trade name	1,371
Intangible assets subject to amortization	
Customer lists and relationships	19,508
Trade name	2,915
Other	445
Investments and other assets	2,375
Goodwill	34,619
Total assets acquired	90,868
Liabilities assumed	
Current liabilities, excluding current portion of long-term debt	5,645
Long-term debt	20,585
Other noncurrent liabilities	16,875
Total liabilities assumed	43,105
Net assets acquired	47,763
Noncontrolling interest	(354)
Aggregate value of consideration paid	$47,409

Dollars in millions except per share amounts

For the 160-day period ended December 31, 2015, our consolidated statement of income included $14,561 of revenues and $(46) of operating income, which included $2,254 of intangible amortization, from DIRECTV and its affiliates. The following unaudited pro forma consolidated results of operations assume that the acquisition of DIRECTV was completed as of January 1, 2014.

	(Unaudited) Year Ended December 31,	
	2015	2014
Total operating revenues	$165,694	$165,595
Net Income Attributable to AT&T	12,683	6,412
Basic Earnings Per Share Attributable to AT&T	$ 2.06	$ 1.04
Diluted Earnings Per Share Attributable to AT&T	$ 2.06	$ 1.04

Nextel Mexico In April 2015, we completed our acquisition of the subsidiaries of NII Holdings Inc., operating its wireless business in Mexico, for $1,875, including approximately $427 of net debt and other adjustments. The subsidiaries offered service under the name Nextel Mexico.

The purchase price allocation of assets acquired was: $376 in licenses, $1,167 in property, plant and equipment, $128 in customer lists and $193 of goodwill. The goodwill was allocated to our International segment.

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

The purchase price allocation of assets acquired was: $735 in licenses, $658 in property, plant and equipment, $378 in customer lists, $26 in trade names and $956 of goodwill. The goodwill was allocated to our International segment.

AWS-3 Auction In January 2015, we submitted winning bids of $18,189 in the Advanced Wireless Service (AWS)-3 Auction (FCC Auction 97), a portion of which represented spectrum clearing and First Responder Network Authority funding. We provided the Federal Communications Commission (FCC) an initial down payment of $921 in October 2014 and paid the remaining $17,268 in the first quarter of 2015.

Spectrum Acquisitions and swaps On occasion, we swap spectrum with other wireless providers to ensure we have efficient and contiguous coverage across our markets and service areas. During 2016, we swapped FCC licenses with a fair value of approximately $2,122 with other carriers and recorded a net gain of $714.

During 2015, we acquired $489 of wireless spectrum, not including the AWS auction. During 2014, we acquired $1,263 of wireless spectrum, not including Leap Wireless International, Inc. (Leap) discussed below.

Leap In March 2014, we acquired Leap, a provider of prepaid wireless service, for $15.00 per outstanding share of Leap's common stock, or $1,248 (excluding Leap's cash on hand), plus one nontransferable contingent value right (CVR) per share. The CVR entitled each Leap stockholder to a pro rata share of the net proceeds of the sale of the Chicago 700 MHz A-band FCC license held by Leap. In November 2016, we completed the sale of the Chicago 700 MHz A-band FCC license and proceeds will be distributed to the former Leap stockholders during the first quarter of 2017, as required by the agreement.

Pending Acquisition

Time Warner Inc. On October 22, 2016, we entered into and announced a merger agreement (Merger Agreement) to acquire Time Warner Inc. (Time Warner) in a 50% cash and 50% stock transaction for $107.50 per share of Time Warner common stock, or approximately $85,400 at the date of the announcement (Merger). Combined with Time Warner's net debt at September 30, 2016, the total transaction value is approximately $108,700. Each share of Time Warner common stock will be exchanged for $53.75 per share in cash and a number of shares of AT&T common stock equal to the exchange ratio. If the average stock price (as defined in the Merger Agreement) at the time of closing the Merger is between (or equal to) $37.411 and $41.349 per share, the exchange ratio will be the quotient of $53.75 divided by the average stock price. If the average stock price is greater than $41.349, the exchange ratio will be 1.300.
If the average stock price is less than $37.411, the exchange ratio will be 1.437. Post-transaction, Time Warner shareholders will own between 14.4% and 15.7% of AT&T shares on a fully-diluted basis based on the number of AT&T shares outstanding. The cash portion of the purchase price will be financed with new debt and cash (see Note 9).

Time Warner is a global leader in media and entertainment whose major businesses encompass an array of some of the most respected and successful media brands. The deal combines Time Warner's vast library of content and ability to create new premium content for audiences around the world with our extensive customer relationships and distribution; one of the world's largest pay-TV subscriber bases; and leading scale in TV, mobile and broadband distribution.

The Merger Agreement was approved by Time Warner shareholders on February 15, 2017 and remains subject to review by the U.S. Department of Justice. While subject to change, we expect that Time Warner will not need to transfer any of its FCC licenses to AT&T in order to conduct its business operations after the closing of the transaction. It is also a condition to closing that necessary consents from certain public utility commissions and foreign governmental entities must be obtained. The transaction is expected to close before year-end 2017. If the Merger is terminated as a result of reaching the termination date (and at that time one or more of the conditions relating to certain regulatory approvals have not been satisfied) or there is a final, non-appealable order preventing the transaction relating to antitrust laws, communications laws, utilities laws or foreign regulatory laws, then under certain circumstances we would be obligated to pay Time Warner $500.

Dispositions

Connecticut Wireline In October 2014, we sold our incumbent local exchange operations in Connecticut for $2,018 and recorded a pre-tax gain of $76, which is included in "Other income (expense) – net," in our consolidated statements of income. In conjunction with the sale, we allocated $743 of goodwill from our former Wireline reporting unit. Because the book value of the goodwill did not have a corresponding tax basis, the resulting net income impact of the sale was a loss of $360.

América Móvil In 2014, we sold our remaining equity method investment in América Móvil S.A. de C.V. (América Móvil) for approximately $5,885 and recorded a pre-tax gain of $1,330, which is included in "Other income (expense) – net," in our consolidated statements of income.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

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

	Lives (years)	2016	2015
Land	—	**$ 1,643**	$ 1,638
Buildings and improvements	2-44	**35,036**	33,784
Central office equipment[1]	3-10	**92,954**	93,643
Cable, wiring and conduit	15-50	**79,279**	75,784
Satellites	12-15	**2,710**	2,088
Other equipment	2-23	**88,436**	81,972
Software	3-5	**14,472**	11,347
Under construction	—	**5,118**	5,971
		319,648	306,227
Accumulated depreciation and amortization		**194,749**	181,777
Property, plant and equipment – net		**$124,899**	$124,450

[1] Includes certain network software.

Our depreciation expense was $20,661 in 2016, $19,289 in 2015 and $17,773 in 2014. Depreciation expense included amortization of software totaling $2,362 in 2016, $1,660 in 2015 and $1,504 in 2014.

We periodically assess our network assets for impairment and during the fourth quarter of 2016 we recorded a noncash pretax charge of $278 for the impairment of certain wireless assets that were under construction. These assets primarily related to capitalized costs for wireless sites that are no longer in our construction plans. During 2014, due to declining customer demand for our legacy voice and data products and the migration of our networks to next generation technologies, we decided to abandon in place specific copper network assets classified as cable, wiring and conduit. These abandoned assets had a gross book value of approximately $7,141, with accumulated depreciation of $5,021. In 2014, we recorded a $2,120 noncash pretax charge for this abandonment. These charges are included in "Asset abandonments and impairments" in our consolidated statements of income.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were $4,482 for 2016, $5,025 for 2015 and $4,345 for 2014. At December 31, 2016, the future minimum rental payments under noncancelable operating leases for the years 2017 through 2021 were $3,915, $3,706, $3,448, $3,208 and $2,811, with $12,569 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. Capital leases are not significant.

Dollars in millions except per share amounts

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table sets forth the changes in the carrying amounts of goodwill by segment, which is the same as reporting unit for Business Solutions, Entertainment Group and Consumer Mobility. The International segment has three reporting units: Mexico Wireless, Brazil and PanAmericana.

	Business Solutions	Entertainment Group	Consumer Mobility	International	Wireless	Wireline	Total
Balance as of December 31, 2014	$ —	$ —	$ —	$ —	$ 36,469	$ 33,223	$ 69,692
Goodwill acquired	—	30,839	—	4,672	6	—	35,517
Foreign currency translation adjustments	—	—	—	(638)	—	—	(638)
Allocation of goodwill	45,351	7,834	16,512	—	(36,471)	(33,226)	—
Other	—	—	—	(2)	(4)	3	(3)
Balance as of December 31, 2015	45,351	38,673	16,512	4,032	—	—	104,568
Goodwill acquired	22	380	14	65	—	—	481
Foreign currency translation adjustments	—	—	—	167	—	—	167
Other	(9)	—	—	—	—	—	(9)
Balance as of December 31, 2016	**$45,364**	**$39,053**	**$16,526**	**$4,264**	**$ —**	**$ —**	**$105,207**

The majority of our goodwill acquired during 2016 related to the final valuation of DIRECTV, Nextel Mexico and GSF Telecom, as well as our acquisition of Quickplay Media. Other changes to our goodwill in 2016 include foreign currency translation adjustments.

The majority of our goodwill acquired during 2015 related to our acquisitions of DIRECTV, Nextel Mexico and GSF Telecom. Other changes to our goodwill in 2015 include foreign currency translation adjustments and the final valuation of Leap.

The allocation of goodwill represents goodwill previously assigned to our Wireless and Wireline segments. As part of our organizational realignment in 2015, the goodwill from the previous Wireless segment was allocated to the Business Solutions and Consumer Mobility segments and the goodwill from the previous Wireline segment was allocated to the Business Solutions and Entertainment Group segments. The allocations were based on the relative fair value of the portions of the previous Wireless and Wireline segments which were moved into the new Business Solutions, Entertainment Group and Consumer Mobility segments.

Our other intangible assets are summarized as follows:

	December 31, 2016			December 31, 2015		
Other Intangible Assets	Gross Carrying Amount	Currency Translation Adjustment	Accumulated Amortization	Gross Carrying Amount	Currency Translation Adjustment	Accumulated Amortization
Amortized intangible assets:						
Customer lists and relationships:						
Wireless acquisitions	**$ 942**	**$ —**	**$ 715**	$ 1,055	$ —	$ 679
BellSouth Corporation	**4,450**	**—**	**4,429**	4,450	—	4,347
DIRECTV	**19,547**	**(125)**	**5,618**	19,505	(294)	1,807
AT&T Corp.	**33**	**—**	**26**	33	—	23
Mexican wireless	**506**	**(108)**	**214**	485	(60)	110
Subtotal	**25,478**	**(233)**	**11,002**	25,528	(354)	6,966
Trade name	**2,942**	**(7)**	**1,394**	2,905	—	424
Other	**707**	**(3)**	**283**	686	—	195
Total	**$ 29,127**	**$(243)**	**$12,679**	$29,119	$(354)	$7,585

	December 31, 2016	December 31, 2015
Indefinite-lived intangible assets not subject to amortization:		
Licenses		
Wireless licenses	**$ 82,474**	$81,147
Orbital slots	**11,702**	11,946
Trade name	**6,479**	6,437
Total	**$100,655**	$99,530

We review indefinite-lived intangible assets for impairment annually (see Note 1). Wireless licenses provide us with the exclusive right to utilize certain radio frequency spectrum to provide mobile communications services in the United States and Mexico. Orbital slots represent the space in which we operate the broadcast satellites that support our digital video entertainment service offerings.

Amortized intangible assets are definite-life assets, and, as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets, over a weighted-average life of 8.5 years (9.2 years for customer lists and relationships and 4.2 years for trade names and other). Amortization expense for definite-life intangible assets was $5,186 for the year ended December 31, 2016, $2,728 for the year ended December 31, 2015 and $500 for the year ended December 31, 2014. Amortization expense is estimated to be $4,612 in 2017, $3,573 in 2018, $2,516 in 2019, $2,038 in 2020, and $1,563 in 2021.

In 2016, we wrote off approximately $117 of fully amortized intangible assets (primarily customer lists). In 2015, we wrote off approximately $1,483 of fully amortized intangible assets (primarily customer lists). We review amortized 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.

NOTE 8. EQUITY METHOD INVESTMENTS

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

Our investments in equity affiliates at December 31, 2016 primarily include our interests in SKY Mexico, Game Show Network and Otter Media Holdings.

SKY Mexico We hold a 41.3% interest in SKY Mexico, which is a leading pay-TV provider in Mexico.

Game Show Network (GSN) We hold a 42.0% interest in GSN, a television network dedicated to game-related programming and internet interactive game playing.

Otter Media Holdings We hold a 48.3% interest in Otter Media Holdings, a venture between The Chernin Group and AT&T that is focused on acquiring, investing and launching over-the-top subscription video services.

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

	2016	2015
Beginning of year	**$1,606**	$ 250
Additional investments	**208**	77
DIRECTV investments acquired	**—**	1,232
Equity in net income of affiliates	**98**	79
Dividends and distributions received	**(61)**	(30)
Currency translation adjustments	**(156)**	—
Other adjustments	**(21)**	(2)
End of year	**$1,674**	$1,606

Undistributed earnings from equity affiliates were $196 and $162 at December 31, 2016 and 2015.

NOTE 9. DEBT

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

		2016	2015
Notes and debentures[1]			
Interest Rates	Maturities[2]		
0.49% – 2.99%	2016 – 2022	**$ 26,396**	$ 34,265
3.00% – 4.99%	2016 – 2049	**66,520**	54,678
5.00% – 6.99%	2016 – 2095	**26,883**	31,140
7.00% – 9.50%	2016 – 2097	**5,050**	5,805
Other		**4**	15
Fair value of interest rate swaps recorded in debt		**48**	109
		124,901	126,012
Unamortized (discount) premium – net		**(2,201)**	(842)
Unamortized issuance costs		**(319)**	(323)
Total notes and debentures		**122,381**	124,847
Capitalized leases		**869**	884
Other		**259**	416
Total long-term debt, including current maturities		**123,509**	126,147
Current maturities of long-term debt		**(9,828)**	(7,632)
Total long-term debt		**$113,681**	$118,515

[1] Includes credit agreement borrowings.
[2] Maturities assume putable debt is redeemed by the holders at the next opportunity.

We had outstanding Euro, British pound sterling, Canadian dollar, Swiss franc and Brazilian real denominated debt of approximately $24,292 and $26,221 at December 31, 2016 and 2015. The weighted-average interest rate of our entire long-term debt portfolio, including the impact of derivatives, increased from 4.0% at December 31, 2015 to 4.2% at December 31, 2016.

Dollars in millions except per share amounts

Current maturities of long-term debt include debt that may be put back to us by the holders in 2017. 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:

	2016	2015
Current maturities of long-term debt	**$9,828**	$7,632
Bank borrowings[1]	**4**	4
Total	**$9,832**	$7,636

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

Financing Activities

During 2016, we issued $10,140 in long-term debt in various markets, with an average weighted maturity of approximately 12 years and a weighted average coupon of 3.8%. We redeemed $10,823 in borrowings of various notes with stated rates of 1.00% to 9.10%.

During 2016 we completed the following long-term debt issuances:

- February issuance of $1,250 of 2.800% global notes due 2021.
- February issuance of $1,500 of 3.600% global notes due 2023.
- February issuance of $1,750 of 4.125% global notes due 2026.
- February issuance of $1,500 of 5.650% global notes due 2047.
- May issuance of $750 of 2.300% global notes due 2019.
- May issuance of $750 of 2.800% global notes due 2021.
- May issuance of $1,100 of 3.600% global notes due 2023.
- May issuance of $900 of 4.125% global notes due 2026.
- May issuance of $500 of 4.800% global notes due 2044.

On February 9, 2017, we completed the following long-term debt issuances:

- $1,250 of 3.200% global notes due 2022.
- $750 of 3.800% global notes due 2024.
- $2,000 of 4.250% global notes due 2027.
- $3,000 of 5.250% global notes due 2037.
- $2,000 of 5.450% global notes due 2047.
- $1,000 of 5.700% global notes due 2057.

As of December 31, 2016 and 2015, 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, 2016, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2017	2018	2019	2020	2021	Thereafter
Debt repayments[1]	$9,609	$8,840	$8,113	$9,179	$8,614	$85,926
Weighted-average interest rate	2.7%	3.6%	3.7%	2.8%	4.0%	4.7%

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

Credit Facilities

General

In December 2015, we entered into a five-year, $12,000 revolving credit agreement (the "Revolving Credit Agreement") with certain banks. As of December 31, 2016, we have no amounts outstanding under this agreement.

In January 2015, we entered into a $9,155 credit agreement (the "Syndicated Credit Agreement") containing (i) a $6,286 term loan ("Loan A") and (ii) a $2,869 term loan ("Loan B"), with certain banks. In March 2015, we borrowed all amounts available under the agreement. Loan A will be due on March 2, 2018. Amounts borrowed under Loan B will be subject to amortization from March 2, 2018, with 25% of the aggregate principal amount thereof being payable prior to March 2, 2020, and all remaining principal amount due on March 2, 2020. In June 2016, we repaid $4,000 of the outstanding amount under Loan A and $1,000 of the outstanding amount under Loan B. After repayment, the amortization in Loan B has been satisfied. As of December 31, 2016, we have $2,286 outstanding under Loan A and $1,869 outstanding under Loan B.

On October 22, 2016, in connection with entering into the Time Warner merger agreement, AT&T entered into a $40,000 bridge loan with JPMorgan Chase Bank and Bank of America, as lenders (the "Bridge Loan").

On November 15, 2016, we entered into a $10,000 term loan credit agreement (the "Term Loan") with a syndicate of 20 lenders. In connection with this Term Loan, the "Tranche B Commitments" totaling $10,000 under the Bridge Loan were reduced to zero. The "Tranche A Commitments" under the Bridge Loan totaling $30,000 remain in effect.

No amounts will be borrowed under either the Bridge Loan or the Term Loan prior to the closing of the Time Warner merger. Borrowings under either agreement will be used solely to finance a portion of the cash to be paid in the

Merger, the refinancing of debt of Time Warner and its subsidiaries and the payment of related expenses. Prior to the closing date of the Merger, only a payment or bankruptcy event of default would permit the lenders to terminate their commitments under either the Bridge Loan or the Term Loan.

Each of our credit and loan agreements contains covenants that are customary for an issuer with an investment grade senior debt credit rating, as well as a net debt-to-EBITDA (earnings before interest, taxes, depreciation and amortization, and other modifications described in each agreement) financial ratio covenant requiring AT&T to maintain, as of the last day of each fiscal quarter, a ratio of not more than 3.5-to-1. The events of default are customary for agreements of this type and such events would result in the acceleration of, or would permit the lenders to accelerate, as applicable, required payments and would increase each agreement's relevant Applicable Margin by 2.00% per annum.

Revolving Credit Agreement

The obligations of the lenders to advance funds under the Revolving Credit Agreement will end on December 11, 2020, unless prior to that date either: (i) AT&T reduces to $0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than 50% of the facility amount may agree to extend their commitments for two one-year periods beyond the December 11, 2020 end date, under certain circumstances.

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

- at a variable annual rate equal to (1) the highest of: (a) the base rate of the bank affiliate of Citibank, N.A., (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 this agreement); or
- at a rate equal to: (i) LIBOR for a period of one, two, three or six months, as applicable, plus (ii) an applicable margin (as set forth in this agreement).

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

The Syndicated Credit Agreement

Advances bear interest at a rate equal to: (i) the LIBOR for deposits in dollars (adjusted upwards to reflect any bank reserve costs) for a period of three or six months, as applicable, plus (ii) the applicable margin, as set forth in this agreement. The applicable margin under Loan A equals 1.000%, 1.125% or 1.250% per annum depending on AT&T's credit ratings. The applicable margin under Loan B equals 1.125%, 1.250% or 1.375% per annum, depending on AT&T's credit ratings.

Bridge Loan

The obligations of the lenders under the Bridge Loan to provide advances will terminate on the earliest of (i) October 23, 2017, subject to extension in certain cases to April 23, 2018, (ii) the closing of the Time Warner merger without the borrowing of advances under the Bridge Loan and (iii) the termination of the Merger Agreement.

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

- at a variable annual rate equal to: (1) the highest of (a) the prime rate of JPMorgan Chase Bank, (b) 0.5% per annum above the federal funds rate, and (c) the LIBOR applicable to dollars for a period of one month plus 1.00%, plus (2) an applicable margin, as set forth in this agreement (the "Applicable Margin for Base Advances (Bridge Loan)"); or
- at a rate equal to: (i) LIBOR (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) an applicable margin, as set forth in this agreement (the "Applicable Margin for Eurodollar Rate Advances (Bridge Loan)").

The Applicable Margin for Eurodollar Rate Advances (Bridge Loan) will be equal to 0.750%, 1.000%, 1.125%, 1.250% or 1.500% per annum depending on AT&T's credit ratings. The Applicable Margin for Base Advances (Bridge Loan) will be equal to the greater of (x) 0.00% and (y) the relevant Applicable Margin for Eurodollar Rate Advances (Bridge Loan) minus 1.00% per annum, depending on AT&T's credit ratings.

The Applicable Margin for Eurodollar Rate Advances (Bridge Loan) and the Applicable Margin for Base Advances (Bridge Loan) are scheduled to increase by an additional 0.25% on the 90th day after the closing of the Merger and another 0.25% every 90 days thereafter.

AT&T pays a commitment fee of 0.070%, 0.090%, 0.100%, 0.125% or 0.175% of the commitment amount per annum, depending on AT&T's credit ratings.

We also must pay an additional fee of 0.500%, 0.750% and 1.000% on the amount of advances outstanding as of the 90th, 180th and 270th day after advances are made.

The Bridge Loan requires that the commitments of the lenders be reduced and outstanding advances be repaid with the net cash proceeds if we incur certain additional debt, we issue certain additional stock or we have certain sales or dispositions of assets by AT&T or its subsidiaries, in each case subject to exceptions set forth in the Bridge Loan.

Advances under the Bridge Loan are conditioned on the absence of a material adverse effect on Time Warner and certain customary conditions and repayment of all advances must be made no later than 364 days after the date on which the advances are made.

Dollars in millions except per share amounts

Term Loan
Under the Term Loan, there are two tranches of commitments, each in a total amount of $5,000.

The obligations of the lenders under the Term Loan to provide advances will terminate on the earliest of (i) October 23, 2017, subject to extension in certain cases to April 23, 2018, (ii) the closing of the Time Warner merger without the borrowing of advances under the Term Loan and (iii) the termination of the Merger Agreement.

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

- at a variable annual rate equal to: (1) the highest of (a) the prime rate of JPMorgan Chase Bank, N.A., (b) 0.5% per annum above the federal funds rate, and (c) the LIBOR rate applicable to dollars for a period of one month plus 1.00%, plus (2) an applicable margin, as set forth in the Term Loan (the "Applicable Margin for Base Advances (Term Loan)"); or
- at a rate equal to: (i) LIBOR (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) an applicable margin, as set forth in the Term Loan (the "Applicable Margin for Eurodollar Rate Advances (Term Loan)").

The Applicable Margin for Eurodollar Rate Advances (Term Loan) under Tranche A is equal to 1.000%, 1.125% or 1.250% per annum, depending on AT&T's credit ratings.

The Applicable Margin for Eurodollar Rate Advances (Term Loan) under Tranche B is equal to 1.125%, 1.250% or 1.375% per annum, depending on AT&T's credit ratings. The Applicable Margin for Base Advances (Term Loan) is equal to the greater of (x) 0.00% and (y) the relevant Applicable Margin for Eurodollar Rate Advances (Term Loan) minus 1.00% per annum, depending on AT&T's credit ratings.

AT&T pays a commitment fee of 0.090%, 0.100%, or 0.125% of the commitment amount per annum, depending on AT&T's credit ratings.

Advances under the Term Loan are conditioned on the absence of a material adverse effect on Time Warner and certain customary conditions.

Repayment of all advances with respect to Tranche A must be made no later than two years and six months after the date on which such advances are made. Amounts borrowed under Tranche B will be subject to amortization commencing two years and nine months after the date on which such advances are made, with 25% of the aggregate principal amount thereof being payable prior to the date that is four years and six months after the date on which such advances are made, and all remaining principal amount due and payable on the date that is four years and six months after the date on which such advances are made.

NOTE 10. FAIR VALUE MEASUREMENTS AND DISCLOSURE

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

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

The fair value measurements level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Our valuation techniques 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, 2015.

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, 2016		December 31, 2015	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Notes and debentures[1]	**$122,381**	**$128,726**	$124,847	$128,993
Bank borrowings	**4**	**4**	4	4
Investment securities	**2,587**	**2,587**	2,704	2,704

[1] Includes credit agreement borrowings.

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

Following is the fair value leveling for available-for-sale securities and derivatives as of December 31, 2016, and December 31, 2015:

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-Sale Securities				
Domestic equities	**$1,215**	**$ —**	**$ —**	**$ 1,215**
International equities	**594**	**—**	**—**	**594**
Fixed income bonds	**—**	**508**	**—**	**508**
Asset Derivatives[1]				
Interest rate swaps	**—**	**79**	**—**	**79**
Cross-currency swaps	**—**	**89**	**—**	**89**
Liability Derivatives[1]				
Interest rate swaps	**—**	**(14)**	**—**	**(14)**
Cross-currency swaps	**—**	**(3,867)**	**—**	**(3,867)**

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

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Available-for-Sale Securities				
Domestic equities	$ 1,132	$ —	$ —	$ 1,132
International equities	569	—	—	569
Fixed income bonds	—	680	—	680
Asset Derivatives[1]				
Interest rate swaps	—	136	—	136
Cross-currency swaps	—	556	—	556
Foreign exchange contracts	—	3	—	3
Liability Derivatives[1]				
Cross-currency swaps	—	(3,466)	—	(3,466)

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

Investment Securities

Our investment securities include equities, fixed income bonds and other securities. A substantial portion of the fair values of our available-for-sale securities was estimated based on quoted market prices. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Realized gains and losses on securities are included in "Other income (expense) – net" in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated OCI. Unrealized losses that are considered other than temporary are recorded in "Other income (expense) – net" with the corresponding reduction to the carrying basis of the investment. Fixed income investments of $245 have maturities of less than one year, $58 within one to three years, $46 within three to five years, and $159 for five or more years.

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

Derivative Financial Instruments

We enter into derivative transactions 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.

Fair Value Hedging We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed-rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense in the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. Changes in the fair values of the interest rate swaps are exactly offset by changes in the fair value of the underlying debt. Gains or losses realized upon early termination of our fair value hedges are recognized in interest expense. In the years ended December 31, 2016, and December 31, 2015, no ineffectiveness was measured on interest rate swaps designated as fair value hedges.

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

Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as "Other income (expense) – net" in the consolidated statements of income in each period. We evaluate the effectiveness of our cross-currency swaps each quarter. In the years ended December 31, 2016, and December 31, 2015, no ineffectiveness was measured on cross-currency swaps designated as cash flow hedges.

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. Over the next 12 months, we expect to reclassify $59 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks.

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. Gains and losses at the time we settle or take delivery on our designated foreign exchange contracts are amortized into income in the same period the hedged transaction affects earnings, except where an amount is deemed to be ineffective, which would be immediately reclassified to "Other income (expense) – net" in the consolidated statements of income. In the years ended December 31, 2016, and December 31, 2015, no ineffectiveness was measured on foreign exchange contracts designated as cash flow hedges.

Collateral and Credit-Risk Contingency We have entered into agreements with our derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. At December 31, 2016, we had posted collateral of $3,242 (a deposit asset) and held no collateral. Under the agreements, if AT&T's credit rating had been downgraded one rating level by Fitch Ratings, before the final collateral exchange in December, we would have been required to post additional collateral of $150. If DIRECTV Holdings LLC's credit rating had been downgraded below BBB- (S&P), we would owe an additional $274. At December 31, 2015, we had posted collateral of $2,343 (a deposit asset) and held collateral of $124 (a receipt liability). We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) exists, against the fair value of the derivative instruments.

Following are the notional amounts of our outstanding derivative positions:

	2016	2015
Interest rate swaps	**$ 9,650**	$ 7,050
Cross-currency swaps	**29,642**	29,642
Foreign exchange contracts	**—**	100
Total	**$39,292**	$36,792

Following are 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,	2016	2015	2014
Interest rate swaps (Interest expense):			
Gain (Loss) on interest rate swaps	**$(61)**	$(16)	$(29)
Gain (Loss) on long-term debt	**61**	16	29

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

Cash Flow Hedging Relationships For the years ended December 31,	2016	2015	2014
Cross-currency swaps:			
Gain (Loss) recognized in accumulated OCI	**$1,061**	$(813)	$528
Interest rate locks:			
Gain (Loss) recognized in accumulated OCI	**—**	(361)	(128)
Interest income (expense) reclassified from accumulated OCI into income	**(59)**	(58)	(44)

NOTE 11. INCOME TAXES

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

	2016	2015
Depreciation and amortization	**$44,903**	$46,067
Licenses and nonamortizable intangibles	**22,892**	20,732
Employee benefits	**(10,045)**	(10,517)
Deferred fulfillment costs	**3,204**	2,172
Net operating loss and other carryforwards	**(4,304)**	(4,029)
Other – net	**(216)**	(1,478)
Subtotal	**56,434**	52,947
Deferred tax assets valuation allowance	**2,283**	2,141
Net deferred tax liabilities	**$58,717**	$55,088
Noncurrent deferred tax liabilities	**$60,128**	$56,181
Less: Noncurrent deferred tax assets	**(1,411)**	(1,093)
Net deferred tax liabilities	**$58,717**	$55,088

At December 31, 2016, we had combined net operating loss carryforwards (tax effected) for federal income tax purposes of $144, state of $830 and foreign of $1,981, expiring through 2032. Additionally, we had federal credit carryforwards of $0 and state credit carryforwards of $1,348, expiring primarily through 2036.

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, 2016 and 2015 related primarily to state and foreign net operating losses and state credit carryforwards.

We recognize the financial statement effects of a tax return position when it is more likely than not, based on the technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, we apply our judgment, taking into account applicable tax laws, our experience in managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in our financial statements. For each position, the difference between the benefit realized on our tax return and the benefit reflected in our financial statements is recorded on our consolidated balance sheets as an unrecognized tax benefit (UTB). We update our UTBs at each financial statement date to reflect the impacts of audit settlements and other resolutions of audit issues, the expiration of statutes of limitation, developments in tax law and ongoing discussions with taxing authorities. A reconciliation of the change in our UTB balance from January 1 to December 31 for 2016 and 2015 is as follows:

Dollars in millions except per share amounts

Federal, State and Foreign Tax	**2016**	2015
Balance at beginning of year	**$6,898**	$4,465
Increases for tax positions related to the current year	**318**	1,333
Increases for tax positions related to prior years	**473**	660
Decreases for tax positions related to prior years	**(1,168)**	(396)
Lapse of statute of limitations	**(25)**	(16)
Settlements	**50**	10
Current year acquisitions	**—**	864
Foreign currency effects	**(30)**	(22)
Balance at end of year	**6,516**	6,898
Accrued interest and penalties	**1,140**	1,138
Gross unrecognized income tax benefits	**7,656**	8,036
Less: Deferred federal and state income tax benefits	**(557)**	(582)
Less: Tax attributable to timing items included above	**(3,398)**	(3,460)
Less: UTBs included above that relate to acquisitions that would impact goodwill if recognized during the measurement period	**—**	(842)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	**$3,701**	$3,152

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 $3,084 at December 31, 2016, and $3,027 at December 31, 2015.

Accrued interest and penalties included in UTBs were $1,140 as of December 31, 2016, and $1,138 as of December 31, 2015. 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 $24 for 2016, $83 for 2015, and $(64) for 2014.

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

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

	2016	2015	2014
Federal:			
Current	**$2,915**	$2,496	$1,610
Deferred	**3,127**	3,828	2,060
	6,042	6,324	3,670
State and local:			
Current	**282**	72	(102)
Deferred	**339**	671	(73)
	621	743	(175)
Foreign:			
Current	**335**	320	163
Deferred	**(519)**	(382)	(39)
	(184)	(62)	124
Total	**$6,479**	$7,005	$3,619

"Income Before Income Taxes" in the Consolidated Statements of Income included the following components for the years ended December 31:

	2016	2015	2014
U.S. income before income taxes	**$20,911**	$21,519	$10,244
Foreign income (loss) before income taxes	**(1,099)**	(827)	111
Total	**$19,812**	$20,692	$10,355

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:

	2016	2015	2014
Taxes computed at federal statutory rate	**$6,934**	$7,242	$3,624
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	**416**	483	(113)
Connecticut wireline sale	**—**	—	350
Loss of foreign tax credits in connection with América Móvil sale	**—**	—	386
Mexico restructuring	**(471)**	—	—
Other – net	**(400)**	(720)	(628)
Total	**$6,479**	$7,005	$3,619
Effective Tax Rate	**32.7%**	33.9%	34.9%

NOTE 12. PENSION AND POSTRETIREMENT BENEFITS

Pension Benefits and Postretirement Benefits

Substantially all of our U.S. management employees hired before January 1, 2015 are covered by one of our noncontributory pension programs. The vast majority of domestic nonmanagement employees, including those hired after 2015, also participate in our noncontributory pension programs. Management participants generally receive benefits under either cash balance pension programs that include annual or monthly credits based on salary as well as an interest credit, or a traditional pension formula (i.e., a stated percentage of employees' adjusted career income). Nonmanagement employees' pension benefits are generally calculated using one of two formulas: a flat dollar amount applied to years of service according to job classification or a cash balance plan with negotiated annual pension band credits as well as interest credits. Most nonmanagement employees can elect to receive their pension benefits in either a lump sum payment or an annuity.

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.

We acquired DIRECTV on July 24, 2015. DIRECTV sponsored a noncontributory defined benefit pension plan, which provided benefits to most employees based on either years of service and final average salary, or eligible compensation while employed by DIRECTV. DIRECTV also maintained (1) a postretirement benefit plan for those retirees eligible to participate in health care and life insurance benefits, generally until they reach age 65 and (2) an unfunded nonqualified pension plan for certain eligible employees. At December 31, 2015, we recorded the fair value of the DIRECTV plans using assumptions and accounting policies consistent with those disclosed by AT&T.

In December 2014, we announced an opportunity for certain management employees who were retirement eligible as of March 31, 2015 to elect an enhanced, full lump sum payment option of their accrued pension if they retired on or before March 31, 2015. The lump sum value totaled approximately $1,200 which was distributed in 2015. We recorded special termination benefits of $149 as a result of the offer.

In the fourth quarter of 2014, we changed the method we use to estimate the service and interest components of net periodic benefit cost for pension (as of October 1, 2014) and other postretirement benefits (as of December 31, 2014). This change did not affect the measurement of our total benefit obligations or our annual net periodic benefit cost as the change in service and interest costs was completely offset in the actuarial (gain) loss reported. This change compared to the previous method resulted in a decrease of $150 in the service and interest components for pension cost in the fourth quarter of 2014. For the year ended December 31, 2015, the change resulted in an incremental decrease of $740 in service and interest components for pension and postretirement costs. Prior to the fourth quarter of 2014, we estimated these service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We have elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We have made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. We have accounted for this change as a change in accounting estimate that is inseparable from a change in accounting principle and accordingly have accounted for it prospectively.

Obligations and Funded Status

For defined benefit pension plans, the benefit obligation is the "projected benefit obligation," the actuarial present value, as of our December 31 measurement date, of all benefits attributed by the pension benefit formula to employee service rendered to that date. The amount of benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees and their beneficiaries 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 measurement date of all future benefits attributed under the terms of the postretirement benefit plan to employee service.

Dollars in millions except per share amounts

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

	Pension Benefits		Postretirement Benefits	
	2016	2015	**2016**	2015
Benefit obligation at beginning of year	**$55,464**	$59,543	**$27,898**	$30,709
Service cost – benefits earned during the period	**1,112**	1,212	**192**	222
Interest cost on projected benefit obligation	**1,980**	1,902	**972**	967
Amendments	**(206)**	(8)	**(600)**	(74)
Actuarial (gain) loss	**1,485**	(3,079)	**(529)**	(1,988)
Special termination benefits	**—**	149	**—**	—
Benefits paid	**(3,614)**	(4,681)	**(1,941)**	(1,958)
DIRECTV acquisition	**—**	470	**—**	20
Transfer for sale of Connecticut wireline operations	**—**	(42)	**—**	—
Plan transfers	**(38)**	(2)	**35**	—
Benefit obligation at end of year	**$56,183**	$55,464	**$26,027**	$27,898

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

	Pension Benefits		Postretirement Benefits	
	2016	2015	**2016**	2015
Fair value of plan assets at beginning of year	**$ 42,195**	$ 45,163	**$ 6,671**	$ 7,846
Actual return on plan assets	**3,123**	604	**407**	64
Benefits paid[1]	**(3,614)**	(4,681)	**(1,156)**	(1,239)
Contributions	**910**	735	**—**	—
DIRECTV acquisition	**—**	418	**—**	—
Transfer for sale of Connecticut wireline operations	**—**	(42)	**—**	—
Plan transfers and other	**(4)**	(2)	**(1)**	—
Fair value of plan assets at end of year[3]	**42,610**	42,195	**5,921**	6,671
Unfunded status at end of year[2]	**$(13,573)**	$(13,269)	**$(20,106)**	$(21,227)

[1] At our discretion, certain postretirement benefits may be paid from AT&T cash accounts, which does not reduce Voluntary Employee Benefit Association (VEBA) assets. Future benefit payments may be made from VEBA trusts and thus reduce those asset balances.
[2] Funded status is not indicative of our ability to pay ongoing pension benefits or of our obligation to fund retirement trusts. Required pension funding is determined in accordance with the Employee Retirement Income Security Act of 1974, as amended (ERISA) regulations.
[3] Net assets available for benefits were $51,087 at December 31, 2016 and $50,909 at December 31, 2015 and include the preferred equity interest in AT&T Mobility II LLC discussed below, which was valued at $8,477 and $8,714, respectively.

In July 2014, the U.S. Department of Labor published in the Federal Register their final retroactive approval of our September 9, 2013 voluntary contribution of a preferred equity interest in AT&T Mobility II LLC, the primary holding company for our wireless business, to the trust used to pay pension benefits under our qualified pension plans. The preferred equity interest had a value of $9,104 on the contribution date and was valued at $8,477 at December 31, 2016. The trust is entitled to receive cumulative cash distributions of $560 per annum, which will be distributed quarterly in equal amounts and will be accounted for as contributions. We distributed $560 to the trust during 2016. So long as we make the distributions, we will have no limitations on our ability to declare a dividend, or repurchase shares. This preferred equity interest is a plan asset under ERISA and is recognized as such in the plan's separate financial statements. However, because the preferred equity interest is not unconditionally transferable to an unrelated party (see Note 14), it is not reflected in plan assets in our consolidated financial statements and instead has been eliminated in consolidation. At the time of the contribution of the preferred equity interest, we made an additional cash contribution of $175 and agreed to annual cash contributions of $175 no later than the due date for our federal income tax return for each of 2014, 2015 and 2016. During 2016, we accelerated the final contribution and completed our obligation with a $350 cash payment to the trust. These contributions combined with our existing pension assets are in excess of 90% of the pension obligation at December 31, 2016.

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

	2016	2015
Plan assets recognized in the consolidated financial statements	**$42,610**	$42,195
Preferred equity interest in Mobility	**8,477**	8,714
Net assets available for benefits	**$51,087**	$50,909

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

	Pension Benefits		Postretirement Benefits	
	2016	2015	**2016**	2015
Current portion of employee benefit obligation[1]	**$ —**	$ —	**$ (1,644)**	$ (1,766)
Employee benefit obligation[2]	**(13,573)**	(13,269)	**(18,462)**	(19,461)
Net amount recognized	**$(13,573)**	$(13,269)	**$(20,106)**	$(21,227)

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

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was $54,538 at December 31, 2016, and $54,007 at December 31, 2015.

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

Periodic Benefit Costs

Our combined net pension and postretirement cost (credit) recognized in our consolidated statements of income was $303, $(2,821) and $7,232 for the years ended December 31, 2016, 2015 and 2014. A portion of pension and postretirement benefit costs is capitalized as part of the benefit load on internal construction and capital expenditures, providing a small reduction in the net expense recorded. The following table presents the components of net periodic benefit cost:

	Pension Benefits			Postretirement Benefits		
	2016	2015	2014	**2016**	2015	2014
Service cost – benefits earned during the period	**$ 1,112**	$ 1,212	$ 1,134	**$ 192**	$ 222	$ 233
Interest cost on projected benefit obligation	**1,980**	1,902	2,470	**972**	967	1,458
Expected return on assets	**(3,115)**	(3,317)	(3,380)	**(355)**	(421)	(653)
Amortization of prior service credit	**(103)**	(103)	(94)	**(1,277)**	(1,278)	(1,448)
Actuarial (gain) loss	**1,478**	(373)	5,419	**(581)**	(1,632)	2,093
Net pension and postretirement (credit) cost	**$ 1,352**	$ (679)	$ 5,549	**$(1,049)**	$(2,142)	$ 1,683

Other Changes in Benefit Obligations Recognized in Other Comprehensive Income

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

	Pension Benefits			Postretirement Benefits		
	2016	2015	2014	**2016**	2015	2014
Balance at beginning of year	**$512**	$575	$583	**$5,510**	$6,257	$6,812
Prior service (cost) credit	**128**	1	45	**372**	45	383
Amortization of prior service credit	**(65)**	(64)	(58)	**(793)**	(792)	(898)
Reclassification to income of prior service credit	**—**	—	5	**—**	—	(40)
Total recognized in other comprehensive (income) loss	**63**	(63)	(8)	**(421)**	(747)	(555)
Balance at end of year	**$575**	$512	$575	**$5,089**	$5,510	$6,257

The estimated prior service credits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year are $123 ($76 net of tax) for pension and $1,342 ($832 net of tax) for postretirement benefits.

Dollars in millions except per share amounts

Assumptions

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

	Pension Benefits			Postretirement Benefits		
	2016	2015	2014	**2016**	2015	2014
Weighted-average discount rate for determining projected benefit obligation at December 31	**4.40%**	4.60%	4.30%	**4.30%**	4.50%	4.20%
Discount rate in effect for determining service cost	**4.90%**	4.60%	5.00%	**5.00%**	4.60%	5.00%
Discount rate in effect for determining interest cost[1]	**3.70%**	3.30%	4.60%	**3.60%**	3.30%	5.00%
Long-term rate of return on plan assets	**7.75%**	7.75%	7.75%	**5.75%**	5.75%	7.75%
Composite rate of compensation increase for determining projected benefit obligation	**3.00%**	3.10%	3.00%	**3.00%**	3.10%	3.00%
Composite rate of compensation increase for determining net pension cost (benefit)	**3.10%**	3.00%	3.00%	**3.10%**	3.00%	3.00%

[1] Weighted-average discount rate of 5.00% in effect for pension costs from January 1, 2014 through September 30, 2014. Discount rates in effect of 4.90% for service cost and 3.50% for interest cost from October 1, 2014 through December 31, 2014. A discount rate of 5.00% was used for postretirement costs for the year ended December 31, 2014.

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

Discount Rate Our assumed weighted-average discount rate for pension and postretirement benefits of 4.40% and 4.30% respectively, at December 31, 2016, reflects the hypothetical rate at which the projected benefit obligation could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and corresponding to the related expected durations of future cash outflows. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2016, when compared to the year ended December 31, 2015, we decreased our pension discount rate by 0.20%, resulting in an increase in our pension plan benefit obligation of $2,189 and decreased our postretirement discount rate 0.20%, resulting in an increase in our postretirement benefit obligation of $906. For the year ended December 31, 2015, we increased our pension discount rate by 0.30%, resulting in a decrease in our pension plan benefit obligation of $1,977 and increased our postretirement discount rates by 0.30%, resulting in a decrease in our postretirement benefit obligation of $854.

We utilize a full yield curve approach in the estimation of the service and interest components of net periodic benefit costs for pension and other postretirement benefits. Under this approach, we apply discounting using individual spot rates from a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date. These spot rates align to each of the projected benefit obligations and service cost cash flows. The service cost component relates to the active participants in the plan, so the relevant cash flows on which to apply the yield curve are considerably longer in duration on average than the total projected benefit obligation cash flows, which also include benefit payments to retirees. Interest cost is computed by multiplying each spot rate by the corresponding discounted projected benefit obligation cash flows. The full yield curve approach reduces any actuarial gains and losses based upon interest rate expectations (e.g., built-in gains in interest cost in an upward sloping yield curve scenario), or gains and losses merely resulting from the timing and magnitude of cash outflows associated with our benefit obligations. Neither the annual measurement of our total benefit obligations nor annual net benefit cost is affected by the full yield curve approach.

Expected Long-Term Rate of Return In 2017, our expected long-term rate of return is 7.75% on pension plan assets and 5.75% on postretirement plan assets. Our long-term rates of return reflect the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In setting the long-term assumed rate of return, management considers capital markets future expectations, the asset mix of the plans' investments and average historical asset return. Actual long-term returns can, in relatively stable markets, also serve as a factor in determining future expectations. We consider many factors that include, but are not limited to, historical returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisers. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the expected long-term rate of return would cause 2017 combined pension and postretirement cost to increase $230. 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 2016 and 3.10% in 2015 reflects the long-term average rate of salary increases.

Mortality Tables At December 31, 2016, we updated our assumed mortality rates to reflect our best estimate of future mortality, which decreased our pension obligation by $793 and decreased our postretirement obligations by $227. At December 31, 2015, we updated our assumed mortality rates, which decreased our pension obligation by $859 and decreased our postretirement obligations by $274.

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. Based on historical experience, updated expectations of healthcare industry inflation and recent prescription drug cost experience, our 2017 assumed annual healthcare prescription drug cost trend for non-Medicare eligible participants will increase to 6.50%, grading down to our ultimate trend rate of 4.50% in 2025 and for Medicare-eligible participants will remain at an assumed annual and ultimate trend rate of 4.50%. This change in assumption increased our obligation by $21. In 2016, our assumed annual healthcare prescription drug cost trend rate for non-Medicare eligible participants was 6.25%, trending to our ultimate trend rate of 4.50% in 2023. Medicare-eligible retirees who receive access to retiree health insurance coverage through a private insurance marketplace are not subject to assumed healthcare trend. In addition to the healthcare cost trend in 2016, we assumed an annual 2.50% growth in administrative expenses and an annual 3.00% growth in dental claims.

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

	One Percentage-Point Increase	One Percentage-Point Decrease
Increase (decrease) in total of service and interest cost components	$ 50	$ (44)
Increase (decrease) in accumulated postretirement benefit obligation	511	(458)

Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets (real estate and natural resources). The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. As part of our voluntary contribution of the Mobility preferred equity interest, we will contribute $560 of cash distributions during 2017. We do not have significant ERISA required contributions to our pension plans for 2017.

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, maximize long-term investment return with an acceptable level of risk based on our pension and postretirement obligations, and diversify broadly 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.

Dollars in millions except per share amounts

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	**2016**	2015	Target	**2016**	2015
Equity securities:						
Domestic	20% – 30%	**24%**	22%	17% – 27%	**22%**	26%
International	10% – 20%	**15**	15	14% – 24%	**19**	14
Fixed income securities	35% – 45%	**39**	40	33% – 43%	**38**	34
Real assets	6% – 16%	**11**	10	0% – 6%	**1**	1
Private equity	4% – 14%	**11**	12	0% – 7%	**2**	2
Other	0% – 5%	**—**	1	13% – 23%	**18**	23
Total		**100%**	100%		**100%**	100%

At December 31, 2016, AT&T securities represented less than 0.5% of assets held by our pension trust and 6% of assets (primarily common stock) held by our VEBA trusts included in these financial statements.

Investment Valuation

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date.

Investments in securities traded on a national securities exchange are valued at the last reported sales price on the final 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.

Other commingled 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.

Real estate and natural resource direct investments are valued at amounts based upon appraisal reports. Fixed income securities valuation is based upon observable prices for comparable assets, broker/dealer quotes (spreads or prices), or a pricing matrix that 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 10 for a discussion of fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

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, 2016:

Pension Assets and Liabilities at Fair Value as of December 31, 2016	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 94	$ —	$ —	$ 94
Interest bearing cash	—	77	—	77
Foreign currency contracts	—	7	—	7
Equity securities:				
Domestic equities	8,299	—	—	8,299
International equities	4,389	—	5	4,394
Fixed income securities:				
Asset-backed securities	—	399	—	399
Mortgage-backed securities	—	838	—	838
Collateralized mortgage-backed securities	—	208	—	208
Collateralized mortgage obligations/REMICS	—	269	—	269
Corporate and other fixed income instruments and funds	75	8,442	40	8,557
Government and municipal bonds	80	4,889	—	4,969
Real estate and real assets	—	—	2,273	2,273
Securities lending collateral	207	1,977	—	2,184
Receivable for variation margin	8	—	—	8
Purchased options	—	1	—	1
Assets at fair value	13,152	17,107	2,318	32,577
Investments sold short and other liabilities at fair value	(643)	(7)	(4)	(654)
Total plan net assets at fair value	$12,509	$17,100	$2,314	$ 31,923
Assets held at net asset value practical expedient				
Private equity funds				4,648
Real estate funds				2,392
Commingled funds				5,721
Total assets held at net asset value practical expedient				12,761
Other assets (liabilities)[1]				(2,074)
Total Plan Net Assets				**$42,610**

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

Postretirement Assets and Liabilities at Fair Value as of December 31, 2016	Level 1	Level 2	Level 3	Total
Interest bearing cash	$ 175	$ 593	$ —	$ 768
Foreign currencies	6	—	—	6
Equity securities:				
Domestic equities	1,178	7	—	1,185
International equities	896	2	—	898
Fixed income securities:				
Asset-backed securities	—	33	4	37
Collateralized mortgage-backed securities	—	108	13	121
Collateralized mortgage obligations	—	32	2	34
Corporate and other fixed income instruments and funds	—	422	7	429
Government and municipal bonds	20	659	—	679
Securities lending collateral	—	128	—	128
Total plan net assets at fair value	$2,275	$1,984	$26	$ 4,285
Assets held at net asset value practical expedient				
Private equity funds				118
Real estate funds				61
Commingled funds				1,667
Total assets held at net asset value practical expedient				1,846
Other assets (liabilities)[1]				(210)
Total Plan Net Assets				**$5,921**

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

Dollars in millions except per share amounts

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, 2016:

Pension Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ —	$ 44	$ 2,062	$ 2,106
Realized gains (losses)	—	(17)	(103)	(120)
Unrealized gains (losses)	3	19	377	399
Transfers in	(4)	—	77	73
Transfers out	—	(2)	—	(2)
Purchases	3	—	65	68
Sales	(1)	(4)	(205)	(210)
Balance at end of year	**$ 1**	**$ 40**	**$2,273**	**$2,314**

Postretirement Assets	Fixed Income Funds	Total
Balance at beginning of year	$ 15	$ 15
Realized gains (losses)	(2)	(2)
Unrealized gains (losses)	2	2
Transfers in	16	16
Sales	(5)	(5)
Balance at end of year	**$26**	**$26**

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, 2015:

Pension Assets and Liabilities at Fair Value as of December 31, 2015	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 160	$ —	$ —	$ 160
Interest bearing cash	—	25	—	25
Foreign currency contracts	—	25	—	25
Equity securities:				
Domestic equities	8,315	4	—	8,319
International equities	4,287	—	—	4,287
Fixed income securities:				
Asset-backed securities	—	403	1	404
Mortgage-backed securities	—	792	—	792
Collateralized mortgage-backed securities	—	278	—	278
Collateralized mortgage obligations/REMICS	—	345	—	345
Corporate and other fixed income instruments and funds	65	8,274	43	8,382
Government and municipal bonds	75	4,495	—	4,570
Real estate and real assets	—	—	2,062	2,062
Securities lending collateral	512	3,538	—	4,050
Receivable for variation margin	13	—	—	13
Assets at fair value	13,427	18,179	2,106	33,712
Investments sold short and other liabilities at fair value	(824)	(12)	—	(836)
Total plan net assets at fair value	$12,603	$18,167	$2,106	$32,876
Assets held at net asset value practical expedient				
Private equity funds				4,926
Real estate funds				2,295
Commingled funds				5,854
Total assets held at net asset value practical expedient				13,075
Other assets (liabilities)[1]				(3,756)
Total Plan Net Assets				$42,195

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

Postretirement Assets and Liabilities at Fair Value as of December 31, 2015	Level 1	Level 2	Level 3	Total
Interest bearing cash	$ 220	$1,292	$ —	$1,512
Foreign currencies	4	—	—	4
Equity securities:				
Domestic equities	1,187	9	—	1,196
International equities	869	2	—	871
Fixed income securities:				
Asset-backed securities	—	35	2	37
Collateralized mortgage-backed securities	—	120	13	133
Collateralized mortgage obligations	—	45	—	45
Corporate and other fixed income instruments and funds	—	378	—	378
Government and municipal bonds	—	617	—	617
Securities lending collateral	6	189	—	195
Futures Contracts	1	—	—	1
Total plan net assets at fair value	$2,287	$2,687	$15	$4,989
Assets held at net asset value practical expedient				
Private equity funds				155
Real estate funds				81
Commingled funds				1,682
Total assets held at net asset value practical expedient				1,918
Other assets (liabilities)[1]				(236)
Total Plan Net Assets				$6,671

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

The tables below set forth a summary of changes in the fair value of the Level 3 pension and postretirement assets for the year ended December 31, 2015:

Pension Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ —	$ 51	$2,140	$2,191
Realized gains (losses)	(1)	(19)	247	227
Unrealized gains (losses)	1	16	192	209
Purchases	—	1	195	196
Sales	—	(5)	(712)	(717)
Balance at end of year	$ —	$ 44	$2,062	$2,106

Postretirement Assets	Fixed Income Funds	Total
Balance at beginning of year	$ 2	$ 2
Transfers in	15	15
Transfers out	(1)	(1)
Sales	(1)	(1)
Balance at end of year	$15	$15

Dollars in millions except per share amounts

Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2016. 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 assumptions could significantly affect these expected amounts. The following table provides expected benefit payments under our pension and postretirement plans:

	Pension Benefits	Postretirement Benefits
2017	$ 4,938	$1,809
2018	4,437	1,797
2019	4,312	1,788
2020	4,264	1,783
2021	4,200	1,776
Years 2022 – 2026	19,764	8,225

Supplemental Retirement Plans

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

We use the same significant assumptions for the composite rate of compensation increase in determining our projected benefit obligation and the net pension and postemployment benefit cost. Our discount rates of 4.20% at December 31, 2016 and 4.40% at December 31, 2015 were calculated using the same methodologies used in calculating the discount rate for our qualified pension and postretirement benefit plans. The following tables provide the plans' benefit obligations and fair value of assets at December 31 and the components of the supplemental retirement pension benefit cost. The net amounts are recorded as "Other noncurrent liabilities" on our consolidated balance sheets.

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

	2016	2015
Projected benefit obligation	**$(2,378)**	$(2,444)
Accumulated benefit obligation	**(2,314)**	(2,372)
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	**2016**	2015	2014
Service cost – benefits earned during the period	**$ 12**	$ 9	$ 7
Interest cost on projected benefit obligation	**83**	77	109
Amortization of prior service cost (credit)	**(1)**	1	(1)
Actuarial (gain) loss	**72**	(36)	243
Net supplemental retirement pension cost	**$166**	$ 51	$358

Other Changes Recognized in Other Comprehensive Income	**2016**	2015	2014
Prior service (cost) credit	**$ 1**	$(1)	$(11)
Amortization of prior service cost (credit)	**(1)**	1	(1)
Total recognized in other comprehensive (income) loss (net of tax)	**$—**	$—	$(12)

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 $148 in 2016, $122 in 2015 and $121 in 2014. Our deferred compensation liability, included in "Other noncurrent liabilities," was $1,273 at December 31, 2016, and $1,221 at December 31, 2015.

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 $631, $653 and $654 for the years ended December 31, 2016, 2015 and 2014.

NOTE 13. SHARE-BASED PAYMENTS

Under our various plans, senior and other management employees and nonemployee directors have received nonvested stock and stock units. In conjunction with the acquisition of DIRECTV, restricted stock units issued under DIRECTV plans were converted to AT&T shares. The remaining shares will vest over a period of one to two years in accordance with the terms of those plans. We do not intend to issue any additional grants under the DIRECTV plans. Any future grants will be made under the AT&T plans.

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 settled 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 predominantly vest over a four- or five-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, 2016, we were authorized to issue up to approximately 130 million shares of common stock (in addition to shares that may be issued upon exercise of outstanding options or upon vesting of performance stock units or other nonvested stock units) to officers, employees and directors pursuant to these various plans.

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

Our consolidated statements of income include the compensation cost recognized for those plans as operating expenses, as well as the associated tax benefits, which are reflected in the table below:

	2016	2015	2014
Performance stock units	**$480**	$299	$226
Restricted stock and stock units	**152**	147	93
Other nonvested stock units	**21**	5	(1)
Total	**$653**	$451	$318
Income tax benefit	**$250**	$172	$122

A summary of the status of our nonvested stock units as of December 31, 2016, 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, 2016	36	$ 33.78
Granted	16	36.65
Vested	(19)	33.12
Forfeited	(2)	35.16
Nonvested at December 31, 2016	**31**	**$35.57**

As of December 31, 2016, there was $587 of total unrecognized compensation cost related to nonvested share-based payment arrangements granted. That cost is expected to be recognized over a weighted-average period of 2.24 years. The total fair value of shares vested during the year was $614 for 2016, compared to $450 for 2015 and $327 for 2014.

It is our intent to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was $179 for 2016, $46 for 2015 and $43 for 2014.

NOTE 14. STOCKHOLDERS' EQUITY

Stock Repurchase Program From time to time, we repurchase shares of common stock for distribution through our employee benefit plans or in connection with certain acquisitions. In March 2013, our Board of Directors approved an authorization to repurchase 300 million shares, under which we repurchased shares during 2014. In March 2014, our Board of Directors approved an additional authorization to repurchase up to 300 million shares of our common stock. For the year ended December 31, 2016, we had repurchased approximately 11 million shares for distribution through our employee benefit plans totaling $444 under these authorizations. For the year ended December 31, 2015, we had repurchased approximately eight million shares totaling $269 under these authorizations.

To implement these authorizations, we used open market repurchase programs, relying on Rule 10b5-1 of the Securities Exchange Act of 1934 where feasible.

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, 2016 and 2015, no preferred shares were outstanding.

Dividend Declarations In October 2016, the Company declared an increase in its quarterly dividend to $0.49 per share of common stock. In December 2015, the Company declared an increase in its quarterly dividend to $0.48 per share of common stock.

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

NOTE 15. SALES OF EQUIPMENT INSTALLMENT RECEIVABLES

We offer our customers the option to purchase certain wireless devices in installments over a period of up to 30 months and, in many cases, they have the right to trade in the original equipment for a new device within a set period and have the remaining unpaid balance satisfied. As of December 31, 2016 and December 31, 2015, gross equipment installment receivables of $5,665 and $5,719 were included on our consolidated balance sheets, of which $3,425 and $3,239 are notes receivable that are included in "Accounts receivable – net."

In 2014, we entered into an uncommitted agreement pertaining to the sale of equipment installment receivables and related security with Citibank and various other relationship banks as purchasers (collectively, the Purchasers). Under this agreement, we transferred certain receivables to the Purchasers for cash and additional consideration upon settlement of the receivables, referred to as the deferred purchase price. Under the terms of the agreement, we continue to bill and collect the payments from our customers on behalf of the Purchasers. Since inception, cash proceeds received, net of remittances (excluding amounts returned as deferred purchase price), were $3,436.

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

	2016	2015	2014
Gross receivables sold	**$7,629**	$7,436	$4,707
Net receivables sold[1]	**6,913**	6,704	4,126
Cash proceeds received	**4,574**	4,439	2,528
Deferred purchase price recorded	**2,368**	2,266	1,629

[1] Receivables net of allowance, imputed interest and trade-in right guarantees.

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

The following table shows the equipment installment receivables, previously sold to the Purchasers, that we repurchased in exchange for the associated deferred purchase price:

	2016	2015	2014
Fair value of repurchased receivables	**$1,675**	$685	$—
Carrying value of deferred purchase price	**1,638**	534	—
Gain on repurchases[1]	**$ 37**	$151	$—

[1] These gains are included in “Selling, general and administrative” in the consolidated statements of income.

At December 31, 2016 and December 31, 2015, our deferred purchase price receivable was $3,090 and $2,961, respectively, of which $1,606 and $1,772 are included in “Other current assets” on our consolidated balance sheets, with the remainder in “Other Assets.” Our maximum exposure to loss as a result of selling these equipment installment receivables is limited to the amount of our deferred purchase price at any point in time.

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

NOTE 16. TOWER TRANSACTION

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

We determined our continuing involvement with the tower assets prevented us from achieving sale-leaseback accounting for the transaction, and we accounted for the cash proceeds from Crown Castle as a financing obligation on our consolidated balance sheets. We record interest on the financing obligation using the effective interest method at a rate of approximately 3.9%. The financing obligation is increased by interest expense and estimated future net cash flows generated and retained by Crown Castle from operation of the tower sites, and reduced by our contractual payments. We continue to include the tower assets in “Property, plant and equipment” on our consolidated balance sheets and depreciate them accordingly. At December 31, 2016 and 2015, the tower assets had a balance of $921 and $960, respectively. Our depreciation expense for these assets was $39 for each of 2016, 2015 and 2014.

Payments made to Crown Castle under this arrangement were $230 for 2016. At December 31, 2016, the future minimum payments under the sublease arrangement are $234 for 2017, $239 for 2018, $244 for 2019, $248 for 2020, $253 for 2021, and $2,052 thereafter.

NOTE 17. 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 $9,181 in 2017, $11,214 in total for 2018 and 2019, $7,799 in total for 2020 and 2021 and $7,242 in total for years thereafter.

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

Dollars in millions except per share amounts

NOTE 18. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Consolidated Balance Sheets	**2016**	2015
Current customer fulfillment costs (included in Other current assets)	**$ 3,398**	$ 2,923
Accounts payable and accrued liabilities:		
Accounts payable	**$22,027**	$21,047
Accrued payroll and commissions	**2,450**	2,629
Current portion of employee benefit obligation	**1,644**	1,766
Accrued interest	**2,023**	1,974
Other	**2,994**	2,956
Total accounts payable and accrued liabilities	**$31,138**	$30,372

Consolidated Statements of Income	**2016**	2015	2014
Advertising expense	**$3,768**	$3,632	$3,272
Interest expense incurred	**$5,802**	$4,917	$3,847
Capitalized interest	**(892)**	(797)	(234)
Total interest expense	**$4,910**	$4,120	$3,613

Consolidated Statements of Cash Flows	**2016**	2015	2014
Cash paid during the year for:			
Interest	**$5,696**	$4,822	$4,099
Income taxes, net of refunds	**3,721**	1,851	1,532

No customer accounted for more than 10% of consolidated revenues in 2016, 2015 or 2014.

Labor Contracts As of January 31, 2017, we employed approximately 268,000 persons. Approximately 48% of our employees are represented by the Communications Workers of America, the International Brotherhood of Electrical Workers or other unions. Contracts covering approximately 20,000 mobility employees across the country and approximately 25,000 traditional wireline employees in our Southwest and Midwest regions have expired or will expire in 2017. Additionally, negotiations continue with approximately 15,000 traditional wireline employees in our West region where the contract expired in April 2016. Approximately 11,000 former DIRECTV employees were eligible for and chose union representation. Bargaining has resulted in approximately 70% of these employees now being covered under ratified contracts that expire between 2017 and 2020. After expiration of the current agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached.

NOTE 19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables represent our quarterly financial results:

	2016 Calendar Quarter				
	First	**Second**	**Third**	**Fourth**[1]	**Annual**
Total Operating Revenues	$40,535	$40,520	$40,890	$41,841	$163,786
Operating Income	7,131	6,560	6,408	4,248	24,347
Net Income	3,885	3,515	3,418	2,515	13,333
Net Income Attributable to AT&T	3,803	3,408	3,328	2,437	12,976
Basic Earnings Per Share Attributable to AT&T[2]	$ 0.62	$ 0.55	$ 0.54	$ 0.39	$ 2.10
Diluted Earnings Per Share Attributable to AT&T[2]	$ 0.61	$ 0.55	$ 0.54	$ 0.39	$ 2.10
Stock Price					
High	$ 39.45	$ 43.21	$ 43.47	$ 42.73	
Low	33.51	37.86	39.71	36.13	
Close	39.17	43.21	40.61	42.53	

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

	2015 Calendar Quarter				
	First	Second	Third	Fourth[1]	Annual
Total Operating Revenues	$32,576	$33,015	$39,091	$42,119	$146,801
Operating Income	5,557	5,773	5,923	7,532	24,785
Net Income	3,339	3,184	3,078	4,086	13,687
Net Income Attributable to AT&T	3,263	3,082	2,994	4,006	13,345
Basic Earnings Per Share Attributable to AT&T[2]	$ 0.63	$ 0.59	$ 0.50	$ 0.65	$ 2.37
Diluted Earnings Per Share Attributable to AT&T[2]	$ 0.63	$ 0.59	$ 0.50	$ 0.65	$ 2.37
Stock Price					
High	$ 35.07	$ 36.45	$ 35.93	$ 34.99	
Low	32.41	32.37	30.97	32.17	
Close	32.65	35.52	32.58	34.41	

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

Report of Management

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, 2016. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework* (2013 framework). Based on its assessment, AT&T management believes that, as of December 31, 2016, 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

Report of Independent Registered Public Accounting Firm

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, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 17, 2017 expressed an unqualified opinion thereon.

Ernst + Young LLP

Dallas, Texas
February 17, 2017

Report of Independent Registered Public Accounting Firm

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, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, 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, 2016 and 2015, 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, 2016 and our report dated February 17, 2017 expressed an unqualified opinion thereon.

Dallas, Texas
February 17, 2017

Ernst + Young LLP

AT&T Inc. Board of Directors

Randall L. Stephenson, 56 [4]

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

Matthew K. Rose, 57 [3,4,5]

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

Samuel A. Di Piazza, Jr, 66 [1,4,6]

Retired Global Chief Executive Officer
PricewaterhouseCoopers International Limited
Director since 2015
DIRECTV Director 2010–2015
Background: Public accounting

Richard W. Fisher, 67 [2,3]

Former President and
Chief Executive Officer
Federal Reserve Bank
of Dallas
Director since 2015
Background: Finance, trade, regulatory

Scott T. Ford, 54 [2,4,5]

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

Glenn H. Hutchins, 61 [2,6]

Chairman
North Island
Co-Founder
Silver Lake
Director since 2014
Background: Technology, public policy

William E. Kennard, 60 [3,6]

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

Michael B. McCallister, 64 [1,5]

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

Beth E. Mooney, 62 [2,3]

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

Joyce M. Roché, 69 [3,4,5]

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

Cynthia B. Taylor, 55 [1,6]

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

Laura D'Andrea Tyson, Ph.D., 69 [1,4,6]

Distinguished Professor of the
Graduate School
University of California, Berkeley
Director since 1999
Ameritech Director 1997–1999
Background: Economics, education, public policy

Geoffrey Y. Yang, 57 [2]

Founding Partner
and Managing Director
Redpoint Ventures
Director since June 2016
Background: Technology, media, entertainment

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 February 17, 2017.)

Executive Officers of AT&T Inc. and Its Affiliates

Randall Stephenson, 56
Chairman, Chief Executive Officer and President

John Donovan, 56
Chief Strategy Officer and Group President-AT&T Technology and Operations

David McAtee II, 48
Senior Executive Vice President and General Counsel

John Stankey, 54
Chief Executive Officer-AT&T Entertainment Group, AT&T Services, Inc.

Thaddeus Arroyo, 53
Chief Executive Officer-Business Solutions and International

David Huntley, 58
Senior Executive Vice President and Chief Compliance Officer

Robert Quinn Jr., 56
Senior Executive Vice President-External and Legislative Affairs, AT&T Services, Inc.

John Stephens, 57
Senior Executive Vice President and Chief Financial Officer

Bill Blase Jr., 61
Senior Executive Vice President-Human Resources

Lori Lee, 51
Senior Executive Vice President and Global Marketing Officer

(Information is provided as of February 17, 2017.)