FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______to

Commission File Number: 1-8610

AT&T INC.

Incorporated under the laws of the State of Delaware
I.R.S. Employer Identification Number 43-1301883

208 S. Akard St., Dallas, Texas, 75202
Telephone Number 210-821-4105

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

Based on the closing price of $37.73 per share on June 30, 2017, the aggregate market value of our voting and non-voting common stock held by non-affiliates was $232 billion.

At February 9, 2018, common shares outstanding were 6,141,532,706.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of AT&T Inc.'s Annual Report to Stockholders for the fiscal year ended December 31, 2017 (Parts I and II).

(2) Portions of AT&T Inc.'s Notice of 2018 Annual Meeting and Proxy Statement dated on or about March 12, 2018 to be filed within the period permitted under General Instruction G(3) (Parts III and IV).

SCHEDULE A

Securities Registered Pursuant To Section 12(b) Of The Act:

Title of each class	**Name of each exchange on which registered**
Common Shares (Par Value $1.00 Per Share)	New York Stock Exchange
Floating Rate AT&T Inc. Global Notes due June 4, 2019	New York Stock Exchange
1.875% AT&T Inc. Global Notes due December 4, 2020	New York Stock Exchange
2.65% AT&T Inc. Global Notes due December 17, 2021	New York Stock Exchange
1.45% AT&T Inc. Global Notes due June 1, 2022	New York Stock Exchange
2.50% AT&T Inc. Global Notes due March 15, 2023	New York Stock Exchange
Floating Rate AT&T Inc. Global Notes due September 4, 2023	New York Stock Exchange
1.05% AT&T Inc. Global Notes due September 4, 2023	New York Stock Exchange
1.30% AT&T Inc. Global Notes due September 5, 2023	New York Stock Exchange
2.75% AT&T Inc. Global Notes due May 19, 2023	New York Stock Exchange
2.40% AT&T Inc. Global Notes due March 15, 2024	New York Stock Exchange
3.50% AT&T Inc. Global Notes due December 17, 2025	New York Stock Exchange
1.80% AT&T Inc. Global Notes due September 4, 2026	New York Stock Exchange
2.35% AT&T Inc. Global Notes due September 4, 2029	New York Stock Exchange
4.375% AT&T Inc. Global Notes due September 14, 2029	New York Stock Exchange

SCHEDULE A - Continued

2.60% AT&T Inc. Global Notes due December 17, 2029	New York Stock Exchange
3.55% AT&T Inc. Global Notes due December 17, 2032	New York Stock Exchange
5.20% AT&T Inc. Global Notes due November 18, 2033	New York Stock Exchange
3.375% AT&T Inc. Global Notes due March 15, 2034	New York Stock Exchange
2.45% AT&T Inc. Global Notes due March 15, 2035	New York Stock Exchange
3.15% AT&T Inc. Global Notes due September 4, 2036	New York Stock Exchange
3.55% AT&T Inc. Global Notes due September 14, 2037	New York Stock Exchange
7.00% AT&T Inc. Global Notes due April 30, 2040	New York Stock Exchange
4.25% AT&T Inc. Global Notes due June 1, 2043	New York Stock Exchange
4.875% AT&T Inc. Global Notes due June 1, 2044	New York Stock Exchange
5.35% AT&T Inc. Global Notes due November 1, 2066	New York Stock Exchange

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PART I

ITEM 1. BUSINESS

GENERAL

AT&T Inc. ("AT&T," "we" or the "Company") is a holding company incorporated under the laws of the State of Delaware in 1983 and has its principal executive offices at 208 S. Akard St., Dallas, Texas, 75202 (telephone number 210-821-4105). We maintain an internet website at www.att.com. (This website address is for information only and is not intended to be an active link or to incorporate any website information into this document.) We make available, free of charge, on our website our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on that website, and in print, if any stockholder or other person so requests, our "Code of Ethics" applicable to all employees and Directors, our "Corporate Governance Guidelines," and the charters for all committees of our Board of Directors, including Audit, Human Resources and Corporate Governance and Nominating. Any changes to our Code of Ethics or waiver of our Code of Ethics for senior financial officers, executive officers or Directors will be posted on that website.

History
AT&T, formerly known as SBC Communications Inc. (SBC), was formed as one of several regional holding companies created to hold AT&T Corp.'s (ATTC) local telephone companies. On January 1, 1984, we were spun-off from ATTC pursuant to an anti-trust consent decree, becoming an independent publicly-traded telecommunications services provider. At formation, we primarily operated in five southwestern states. Our subsidiaries merged with Pacific Telesis Group in 1997, Southern New England Telecommunications Corporation in 1998 and Ameritech Corporation in 1999, thereby expanding our wireline operations as the incumbent local exchange carrier (ILEC) into a total of 13 states. In November 2005, one of our subsidiaries merged with ATTC, creating one of the world's leading telecommunications providers. In connection with the merger, we changed the name of our company from "SBC Communications Inc." to "AT&T Inc." In December 2006, one of our subsidiaries merged with BellSouth Corporation (BellSouth) making us the ILEC in an additional nine states. With the BellSouth acquisition, we also acquired BellSouth's 40 percent economic interest in AT&T Mobility LLC (AT&T Mobility), formerly Cingular Wireless LLC, resulting in 100 percent ownership of AT&T Mobility. In 2014, we completed the acquisition of wireless provider Leap Wireless International, Inc. (Leap) and sold our ILEC operations in Connecticut, which we had previously acquired in 1998. In 2015, we completed acquisitions of wireless properties in Mexico and DIRECTV, a leading provider of digital television entertainment services in both the United States and Latin America. Our services and products are marketed under the AT&T, Cricket, DIRECTV, SKY, and Unefon brand names.

Scope
We are a leading provider of communications and digital entertainment services in the United States and the world. We offer our services and products to consumers in the U.S., Mexico and Latin America and to businesses and other providers of telecommunications services worldwide. We also own and operate three regional TV sports networks, and retain non-controlling interests in another regional sports network, a joint venture that aims to create media and digital brands and a network dedicated to game-related programming as well as internet interactive game playing.

The services and products that we offer vary by market, and include: wireless and wireline communications services, including data/broadband and voice; digital video services, telecommunications equipment; managed networking; and wholesale services. Our operating segments are organized as follows:

- Business Solutions business units provide 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; FlexWare, a service that relies on Software Defined Networking (SDN) and Network Functions Virtualization (NFV) to provide application-based routing, and broadband, collectively referred to as strategic services, as well as traditional data and voice products. We utilize our wireless and wired networks to provide a complete communications solution to our business customers.
- Entertainment Group business units provide 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 IP-based and copper network and our satellite technology.
- Consumer Mobility business units provide nationwide wireless service to consumers, and wholesale and resale subscribers located in the United States and in U.S. territories. We utilize our network to provide voice and data services, including high-speed internet services over wireless devices.

- International business units provide entertainment services in Latin America and wireless services in Mexico. Video entertainment services are provided to primarily residential customers using satellite technology. We utilize our regional and national networks in Mexico to provide consumer and business customers with wireless data and voice communication services.

Our Corporate and Other unit 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 operating segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

With continuing advances in technology and in response to changing demands from our customers, in recent years we have focused on providing enhanced broadband, video and voice services. In 2015, we purchased DIRECTV to expand our involvement in the digital entertainment space by using the nationwide reach of DIRECTV and its superior content-owner relationships to improve our video offerings. W e also purchased wireless operations in Mexico, moving quickly to build a world-class mobile business in a country with a strong economic outlook, a growing middle class, and cultural and geographic ties to the United States. These acquisitions and our continued investment in a premier network experience make our customers' lives more convenient and productive and foster competition and further innovation in the communications and entertainment industry. In late 2016, we took another step in our strategy of providing an unmatched communication and entertainment experience for our customers when we agreed to purchase Time Warner Inc. (Time Warner), a global leader in creating premium media and entertainment content. In 2018, we plan to focus on the areas discussed below.

Wireless
We provide wireless data and voice services. We are experiencing rapid growth in video and data usage as consumers are demanding seamless access across their wired and wireless devices, and as more and more machines are being connected to the internet.

As of December 31, 2017, we served 157 million wireless subscribers in North America, with nearly 142 million in the United States. Our LTE technology covers over 400 million people in North America, and, in the United States, we cover all major metropolitan areas and over 320 million people with our LTE technology. We also provide 4G coverage using another technology (HSPA+), and, when combined with our upgraded backhaul network, we are able to enhance our network capabilities and provide superior mobile broadband speeds for data and video services. Our wireless network also relies on other GSM digital transmission technologies for 3G data communications.

We are currently planning for deployment of the latest wireless technology (5G) and are conducting 5G trials in multiple cities. We expect to be the first U.S. company to introduce mobile 5G service in 12 markets by late 2018. Additional, we are one of the top North American wireless carrier contributors into 3rd Generation Partnership Project's (3GPP) work on 5G standards since early 2016. The increased speeds and network operating efficiency expected with 5G technology should enable massive deployment of devices connected to the internet as well as faster delivery of video and data services. We expect that 5G will be about the entire connected experience, not just fast speeds.

As the wireless industry has matured, future wireless growth will increasingly depend on our ability to offer innovative video and data services on a wireless network that has sufficient spectrum and capacity to support these innovations. We continue to invest significant capital in expanding our network capacity, as well as obtaining additional spectrum that meets our long-term needs. We have participated in recent FCC spectrum auctions and have been redeploying spectrum previously used for more basic services to support more advanced mobile internet services. We also have been awarded the contract to provide national coverage for emergency personnel (first responders) by the First Responder Network Authority, which will give us access to a nationwide low band 20 MHz of spectrum (see Other Business Matters). We will continue to invest in our wireless network as we look to provide future service offerings and participate in technologies such as 5G and millimeter-wave bands.

Business Solutions
We expect to continue to strengthen the reach and sophistication of our network facilities and our ability to offer a variety of communications services, both fixed and mobile, to businesses customers, including multinational companies; governmental and wholesale customers; and individual subscribers who purchase wireless services through employer-sponsored plans.

Internet Protocol (IP) Technology
IP is generally used to describe the transmission of data, which can include voice (called voice over IP or VoIP), using a software-based technology rather than a traditional wire and physical switch-based telephone network. This technology can provide voice and data services at a lower cost because this technology uses bandwidth more efficiently than a legacy copper

wire network. Using this technology also presents growth opportunities, especially in providing data and video services to both fixed locations and mobile devices. To take advantage of both these growth and cost-savings opportunities, we are rapidly converting our network to a software-based network and managing the migration of wireline customers in our current 21-state ILEC service area to services using IP, and expect to continue this transition through at least 2020.

Software based technologies, like IP, align with AT&T's global leadership in software defined network (SDN) and network virtualization (NFV). This network approach, of which AT&T is a global leader in its commitment to virtualize 75% of our network by 2020, delivers a demonstrable cost advantage in the deployment of next-generation technology over the traditional, hardware-intensive network approach.

AT&T's virtualized network will be able to support next-generation applications like 5G and IP-based services quickly and efficiently. In fact, we're building many of these next-generation and SDN applications using open source software. We're also contributing code back to the open source community so other innovators can take advantage of what we've learned in this transformation. We're leading the charge to the next generation of the network.

Integration of Data/Broadband and Entertainment Services
As the communications industry continues to move toward internet-based technologies that are capable of blending wireline, satellite and wireless services, we are offering services that take advantage of these more sophisticated technologies. In particular, we continue to focus on expanding our high-speed internet and video offerings and on developing IP-based services that allow customers to integrate their home or business fixed services with their mobile service. During 2018, we will continue to develop and provide unique integrated video, mobile and broadband solutions. In 2017, we expanded our offering of DIRECTV NOW, an over-the-top video service; data usage from DIRECTV NOW will not count toward data limits for customers who bundle this product with our wireless service. We believe bundling this offering facilitates our customers' desire to view video anywhere on demand and encourages customer retention.

International
We believe that the wireless model in the U.S., with exploding demand for mobile internet service and the associated economic benefits, will be repeated around the world as companies invest in high-speed mobile networks. Due in part to changes in the legal and regulatory framework in Mexico in 2015, we acquired Mexican wireless operations to establish a unique, seamless, cross-border North American wireless network covering over 400 million people and businesses in the United States and Mexico. During 2018, we will continue to build a world-class mobile business and network in Mexico and expect to cover 100 million people and businesses.

BUSINESS OPERATIONS

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

Additional information about our segments, including financial information, is included under the heading "Segment Results" on pages 17 through 25 and in Note 4 of the Annual Report and is incorporated herein by reference pursuant to General Instruction G(2).

BUSINESS SOLUTIONS
Our 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; FlexWare, a service that relies on Software Defined Networking (SDN) and Network Functions Virtualization (NFV) to provide application-based routing, and broadband, collectively referred to as 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 integrated communications solution to our business customers. The Business Solutions segment provided approximately 43% of 2017 segment operating revenues and 54% of our 2017 total Segment Contribution. We divide Business Solutions revenue into the

following categories: wireless service, strategic services, legacy voice and data services, other services and wireless equipment.

Wireless Service – We offer a comprehensive range of high-quality nationwide wireless voice and data communications services in a variety of pricing plans to approximately 90 million Business Solutions wireless subscribers. Our offerings are tailored to meet the communications needs of targeted customer categories. We classify our subscribers as either postpaid, connected device or reseller.

Wireless data services continue to be a growing area for this segment, representing an increasing share of overall subscriber revenue. We are experiencing solid growth in this area as an increasing number of our subscribers have upgraded their handsets to more advanced integrated devices, are using data-centric devices such as tablets and connected cars and are utilizing the network to connect and control physical devices using embedded computing systems and/or software, commonly called the Internet of Things (IoT). We offer Mobile Share plans, including plans featuring unlimited wireless data, which allow sharing of voice, text and data across multiple devices. We also offer equipment installment programs, such as AT&T Next SM (AT&T Next), a program allowing subscribers to more frequently upgrade handsets using an installment payment plan; and Rollover Data on Mobile Share plans, which allows unused shareable plan data to be rolled over and used within the next month. Such offerings are intended to encourage existing subscribers to upgrade their current services and/or add connected devices, attract subscribers from other providers and minimize subscriber churn. Participation in these plans continues to increase. Customers in our "connected device" category (e.g., users of session-based tablets, monitoring devices and automobile systems) generally purchase those devices from third-party suppliers that buy data access supported by our network. We continue to upgrade our network and coordinate with equipment manufacturers and application developers to further capitalize on the continued growing demand for wireless data services.

During the first quarter of 2016, we discontinued offering subsidized smartphones to most of our customers. Under our no-subsidy model, subscribers must purchase a device under an equipment installment program or choose to bring their own device, with no annual service contract. Our wireless services include data and voice services, including long-distance service and roaming services. Roaming services enable our subscribers to utilize other carriers' networks when they are "roaming" outside our network footprint.

Strategic Services – Strategic services (previously known as strategic business services) are our most advanced business solutions. Our offerings use high-capacity digital circuits, and allow customers to create internal data networks and access external data networks. Switched transport services transmit data using switching equipment to transfer the data between multiple lines before reaching its destination. Dedicated transport services use a single direct path to transmit data between destinations. Due to advances in technology, our most advanced business solutions are subject to change periodically. We review and evaluate our strategic service offerings annually, which may result in an updated definition and the recast of our historical financial information to conform to the current period presentation. Any modifications will be reflected in the first quarter.

We provide businesses voice applications over IP-based networks (i.e., Virtual Private Networks or "VPN"). Over the past several years, we have built out our IP/MPLS (Internet Protocol/MultiProtocol Label Switching) network, to supplement our IP-based product set, and eventually replace our older circuit-based networks and services. These products allow us to provide highly complex global data networks. Additional IP-based services include internet access and network integration, network security, dedicated internet and enterprise networking services. To align with these trends, we continue to reconfigure our wireline network to take advantage of the latest technologies and services. To that end, we have developed AT&T FlexWare, a service that relies on our SDN and NFV to enhance business customers' digital agility in a rapidly evolving environment. The service allows for businesses to deploy, configure and change FlexWare applications quickly and often without hardware changes, allowing for virtualized functions across different sites and geographies through a single appliance, increasing deployment speed and flexibility.

Packet services consist of data networks using packet switching and transmission technologies, including traditional circuit-based and IP connectivity services. Packet services enable customers to transmit large volumes of data more economically and securely and are used for wide area network (WAN) and local area network (LAN) interconnection and inter-office communications. High-speed packet services are used extensively by enterprise (large business) customers.

Enterprise networking services provide comprehensive support from network design, implementation and installation to ongoing network operations and management for networks of varying scales, including LANs and virtual private networks.

These services include applications such as e-mail, order entry systems, employee directories, human resource transactions and other database applications. We also offer Wi-Fi service.

Legacy Voice and Data Services – Voice services include traditional local and long-distance service provided to business and governmental customers, either directly or through wholesale arrangements with other service providers. Our circuit-based, traditional data products include switched and dedicated transport services that allow customers to transmit data at high speeds, as well as access to the internet using a DSL connection.

Revenues from our traditional voice services continue to decline as customers switch to wireless or VoIP services provided by us, cable companies or other internet-based providers. In addition, the continuing slow business starts during 2017 have led some wireline customers to terminate their business phone service. We have responded by offering packages of combined voice and data services, including broadband and video, and intend to continue this strategy during 2018.

Other Services – Other service revenues include project-based revenue, which is nonrecurring in nature, as well as revenues from other managed services, outsourcing, professional service and equipment.

We provide intrastate, interstate and international wholesale networking capacity to other service providers. We offer a combination of high-volume transmission capacity and conventional dedicated line services on a regional, national and international basis to our wholesale customers, which are primarily wireless carriers, interexchange carriers, internet service providers (ISPs), and facility-based and switchless resellers.

Wireless Equipment – We sell a wide variety of handsets, wirelessly enabled computers (e.g., tablets and notebooks) and personal computer wireless data cards manufactured by various suppliers for use with our voice and data services. We also sell accessories, such as carrying cases, hands-free devices and other items. We sell through our own company-owned stores, agents and third-party retail stores. Like other wireless service providers, we have historically provided postpaid contract subscribers substantial equipment subsidies to initiate, renew or upgrade service. We have now largely eliminated these subsidies and provide our customers with more service options, the ability to purchase handsets on an installment basis and the opportunity to bring their own device. With the elimination of handset subsidies, our subscribers have been bringing their own devices or retaining their handsets for longer periods, which could impact future upgrade activity.

Additional information on our Business Solutions segment is contained in the Annual Report in the "Overview" section beginning on page 18 and is incorporated herein by reference pursuant to General Instruction G(2).

ENTERTAINMENT GROUP

Our Entertainment Group segment provides video, internet, voice communication, and interactive and targeted advertising services to customers in the United States and U.S. territories by utilizing our IP-based and copper wired network and/or our satellite technology. In July 2015, we acquired DIRECTV, a leading provider of digital television entertainment engaged in acquiring, promoting, selling and distributing digital entertainment programming primarily via satellite to subscribers. The Entertainment Group segment provided approximately 32% of 2017 segment operating revenues and 18% of our 2017 total Segment Contribution. We divide this segment's revenue into the following categories: video entertainment, high-speed internet, legacy voice and data services, and equipment and other.

Video Entertainment – We offer video entertainment services using satellite and IP-based technologies (referred to as "linear") as well as a streaming option that does not require either satellite or wired IP services (referred to as "over-the-top"). Our offerings are structured to provide customers with the best video experience both inside and outside of the home by offering subscribers attractive programming, technology and customer service. Due to the rising cost of programming as well as higher costs to acquire new subscribers in an increasingly competitive industry, it is even more important to distinguish and elevate our video entertainment experience for our new and existing customers.

We provide approximately 25 million subscribers with access to hundreds of channels of digital-quality video entertainment and audio programming. For our satellite subscribers, we provide video-on-demand (VOD) by "pushing" top-rated movies onto customers' digital video recorders (DVRs) for instant viewing, as well as via broadband to our subscribers who have connected their set-top receiver to their broadband service. In addition, our video entertainment subscribers have the ability to use the internet and/or our mobile applications for smartphones and tablets to view authorized content, search program listings and schedule DVR recordings.

We believe it is critical that we continue to extend our brand leadership as a premium pay-TV provider in the marketplace by providing the best video experience both at home and on mobile devices. We believe that our flexible platform that uses a combination of satellite, IP-based and cloud infrastructure with a broadband and wireless connection is the most efficient way to transport content to subscribers when and where they want it. Through this integrated approach, we're able to optimize the use of storage in the home as well as in the cloud, while also providing a seamless service for consumers across screens and locations.

High-Speed Internet – We offer broadband and internet services to 13.5 million residential subscribers. Our IP-based technology provides more advanced high-speed internet services.

Legacy Voice and Data Services – Voice services include traditional local and long-distance service provided to residential customers. Our circuit-based, traditional data products include DSL internet access.

Revenues from our traditional voice services continue to decline as customers switch to wireless or VoIP services provided by either us, cable or other internet-based providers. We have responded by offering packages of combined voice and data services, including broadband, video and wireless, and intend to continue this strategy during 2018.

Equipment and Other – Other revenues include revenue from voice services provided over IP-based technology (VoIP) as well as revenues associated with technical support and other customer service functions and equipment.

Additional information on our Entertainment Group segment is contained in the Annual Report in the "Overview" section beginning on page 20 and is incorporated herein by reference pursuant to General Instruction G(2).

CONSUMER MOBILITY

Our Consumer Mobility segment consists of AT&T Mobility operations that provide nationwide wireless services to consumers and wholesale and resale wireless subscribers located in the United States or U.S. territories by utilizing our network to provide voice and data services, including high-speed internet and home-monitoring services over wireless devices. Wireless services include data and voice, including long-distance and roaming services. Roaming services enable our subscribers to utilize other carriers' networks when they are "roaming" outside our network footprint. The Consumer Mobility segment provided approximately 20% of 2017 total segment operating revenues and 29% of our 2017 total Segment Contribution. We classify our subscribers as either postpaid, prepaid, connected device or reseller. At December 31, 2017, we served 51 million Consumer Mobility subscribers, including 26 million postpaid, 15 million prepaid, 9 million reseller and 500,000 connected devices. We divide our revenue into the following categories: services and equipment.

Wireless Services – We offer a comprehensive range of high-quality nationwide wireless voice and data communications services in a variety of postpaid and prepaid pricing plans. Wireless data services continue to be a growing area of Consumer Mobility's business. When subscribers upgrade their devices, they are choosing to upgrade their handsets to more advanced integrated devices, contributing to growth from wireless data services. We offer Mobile Share plans and an integrated offer combining our unlimited wireless data with our video services. These plans allow sharing of voice, text and data across multiple devices. We also offer equipment installment programs, such as AT&T Next, a program allowing subscribers to more frequently upgrade handsets using an installment payment plan; and Rollover Data on Mobile Share plans, which allows unused shareable plan data to be rolled over and used within the next month. We launched in 2016 a program for wireless subscribers that also purchase our video service to view such programming without it counting against their wireless data allowances. Combined with bundling wireless and video service, these offerings are intended to encourage existing subscribers to upgrade their current services and/or add connected devices, attract subscribers from other providers, and minimize subscriber churn. Participation in these plans continues to increase. Customers in our "connected device" category (e.g., users of session-based tablets) purchase those devices from third-party suppliers that buy data access supported by our network. We continue to upgrade our network and coordinate with equipment manufacturers and applications developers in order to further capitalize on the continued growth in the demand for wireless data services.

During the first quarter of 2016, we discontinued offering subsidized smartphones to most of our customers. Under our no-subsidy model, subscribers must purchase a device under an equipment installment program or choose to bring their own device, with no annual service contract. Market maturity, competition and the migration of subscribers to employer plans offered by our Business Solutions segment have slowed the growth in subscribers.

We also offer nationwide wireless voice and data communications to certain customers who prefer to pay in advance. These services are offered under the Cricket and AT&T PREPAID SM brands and are typically monthly prepaid services.

Other Services – Other services includes consulting, advertising, application and co-location, as well as fees we charge to other carriers for providing roaming services to their customers utilizing our network.

Equipment – We sell a wide variety of handsets, wirelessly enabled computers (e.g., tablets and notebooks) and personal computer wireless data cards manufactured by various suppliers for use with our voice and data services. We sell through our own company-owned stores, agents and third-party retail stores. Like other wireless service providers, we have historically provided postpaid contract subscribers substantial equipment subsidies to initiate, renew or upgrade service. We have now largely eliminated these subsidies and provide our customers with more service options, the ability to purchase handsets on an installment basis and the opportunity to bring their own device. With the elimination of handset subsidies, our subscribers have been retaining their handsets for longer periods, which could impact future upgrade activity. We also sell accessories, such as carrying cases, hands-free devices and other items.

Additional information on our Consumer Mobility segment is contained in the Annual Report in the "Overview" section beginning on page 22 and is incorporated herein by reference pursuant to General Instruction G(2).

INTERNATIONAL

Our 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. The International segment provided approximately 5% of 2017 segment operating revenues. We divide our revenue into the following categories: video entertainment, wireless service and wireless equipment.

Video Entertainment – We are a leading provider of digital television services throughout Latin America, providing a wide selection of local and international digital-quality video entertainment and audio programming under the DIRECTV and SKY brands. We believe we provide one of the most extensive collections of programming available in the Latin America pay-TV market, including HD sports video content and the most innovative interactive technology across the region. In addition, we have the unique ability to sell superior offerings of our differentiated products and services on a continent-wide basis with an operational cost structure that we believe to be lower than that of our competition.

We have approximately 14 million video subscribers in Latin America. Our operations are comprised of: PanAmericana, which provides services in Argentina, Chile, Colombia, Ecuador, Peru, Venezuela and certain other countries in the region; and SKY Brasil Servicos Ltda., or SKY Brasil, which is a 93% owned subsidiary. Our Latin American operations also include our 41% equity method investment in Innova, S. de R.L. de C.V., or SKY Mexico, which we include in our International segment. As of December 31, 2017, PanAmericana had approximately 8 million subscribers and SKY Brasil had approximately 5 million subscribers.

Wireless – We offer postpaid and prepaid wireless services in Mexico to approximately 15 million subscribers under the AT&T and Unefon brands. Postpaid services allow for (1) no annual service contract for subscribers who bring their own device or purchase a device on installment (the device must be paid in full if the customer chooses to drop their service from AT&T); and (2) service contracts for periods up to 24 months for subscribers who purchase their equipment under the traditional device subsidy model. All plans offer no roaming charges in the United States or Canada, unlimited minutes and messages to the extended AT&T community and unlimited social networking. We also offer prepaid services to certain customers who prefer to pay in advance.

Equipment – We sell a wide variety of handsets, including smartphones manufactured by various suppliers for use with our voice and data services. We sell through our own company-owned stores, agents and third-party retail stores.

Additional information on our International segment is contained in the Annual Report in the "Overview" section beginning on page 24 and is incorporated herein by reference pursuant to General Instruction G(2).

MAJOR CLASSES OF SERVICE

The following table sets forth the percentage of total consolidated reported operating revenues by any class of service that accounted for 10% or more of our consolidated total operating revenues in any of the last three fiscal years:

	Percentage of Total Consolidated Operating Revenues		
	2017	2016	2015
Business Solutions Segment			
Wireless service	**20%**	19%	21%
Legacy voice and data services	**9**	10	12
Equipment [1]	**5**	5	6
Entertainment Group Segment			
Video entertainment	**23**	22	14
Legacy voice and data services	**2**	3	4
Consumer Mobility Segment			
Wireless service	**16**	17	20
Equipment	**3**	3	4
International Segment			
Video entertainment	**3**	3	1

[1] Includes customer premises equipment of $778 million in 2017, $982 million in 2016 and $929 million in 2015 that is reported as other service and equipment revenues in our Business Solutions segment.

Additional information on our geographical distribution of revenues is contained in the Annual Report in the "Segment Information" section beginning on page 58 and is incorporated herein by reference pursuant to General Instruction G(2).

GOVERNMENT REGULATION

Wireless communications providers must be licensed by the U.S. Federal Communications Commission (FCC) to provide communications services at specified spectrum frequencies within defined geographic areas and must comply with the rules and policies governing the use of the spectrum as adopted by the FCC. The FCC's rules have a direct impact on whether the wireless industry has sufficient spectrum available to support the high-quality, innovative services our customers demand. Wireless licenses are issued for a fixed time period, typically 10 years, and we must seek renewal of these licenses. While the FCC has generally renewed licenses given to operating companies such as us, the FCC has authority to both revoke a license for cause and to deny a license renewal if a renewal is not in the public interest. Additionally, while wireless communications providers' prices and service offerings are generally not subject to regulation, the federal government and various states are considering new regulations and legislation relating to various aspects of wireless services.

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

In February 2015, the FCC released an order classifying both fixed and mobile consumer broadband internet access services as telecommunications services subject to extensive public utility-style regulation under the Telecom Act. The Order, which represented a departure from longstanding bipartisan precedent significantly expanded the FCC's authority to regulate broadband internet access services, as well as internet interconnection arrangements. AT&T and several other parties appealed the FCC's order. In June 2016, a divided panel of the DC Court of Appeals upheld the FCC's rules by a 2-1 vote, and petitions for rehearing *en banc* were denied in May 2017. Petitions for a writ of Certiorari at the U.S. Supreme Court remain pending. Meanwhile, on December 14, 2017, the FCC reversed its 2015 decision by reclassifying fixed and mobile consumer broadband services as information services and repealing most of the rules that were adopted in 2015. In lieu of broad conduct prohibitions, the order requires internet service providers to disclose information about their network practices and terms of service, including whether they block or throttle Internet traffic or offer paid prioritization. The order will take effect after the Office of Management and Budget approves the new disclosure requirements.

On April 20, 2017, the FCC adopted an order bringing to an end a decade-long proceeding regarding pricing of high capacity data services by incumbent local telephone companies, like AT&T. The order declines to require advanced approval of rates for packet-based services like Ethernet, opting instead to continue the existing regime under which such rates are presumed lawful but may be challenged in a complaint. In addition, the order extends this "light touch" approach to high-speed TDM transport services and to most of our TDM channel termination services, based on the application of a competitive market test for such services. For those services that do not qualify for light touch regulation, the order continues to subject the services to price cap regulation but allows companies to offer volume and term discounts, as well as contract tariffs. Several parties appealed the FCC's decision. These appeals were consolidated in the U.S. Court of Appeals for the Eighth Circuit, where they remain pending.

In November 2017, the FCC updated and streamlined certain rules governing pole attachments, copper retirement, and service discontinuances. These changes should facilitate our ability to replace legacy facilities and services with advanced broadband infrastructure and services.

Our ILEC subsidiaries are subject to regulation by state governments, which have the power to regulate intrastate rates and services, including local, long-distance and network access services, provided such state regulation is consistent with federal law. Some states have eliminated or reduced regulations on our retail offerings. These subsidiaries are also subject to the jurisdiction of the FCC with respect to intercarrier compensation, interconnection, and interstate and international rates and services, including interstate access charges. Access charges are a form of intercarrier compensation designed to reimburse our wireline subsidiaries for the use of their networks by other carriers.

Our subsidiaries operating outside the United States are subject to the jurisdiction of national and supranational regulatory authorities in the market where service is provided.

Additional information relating to regulation of our subsidiaries is contained in the Annual Report under the headings "Operating Environment Overview" beginning on page 28 and "Regulatory Developments" beginning on page 30 and is incorporated herein by reference pursuant to General Instruction G(2).

IMPORTANCE, DURATION AND EFFECT OF LICENSES

Certain of our subsidiaries own or have licenses to various patents, copyrights, trademarks and other intellectual property necessary to conduct business. Many of our subsidiaries also hold government-issued licenses or franchises to provide wireline, satellite or wireless services and additional information relating to regulation affecting those rights is contained in the Annual Report under the heading "Operating Environment Overview" beginning on page 28 and is incorporated herein by reference pursuant to General Instruction G(2). We actively pursue patents, trademarks and service marks to protect our intellectual property within the United States and abroad. We maintain a significant global portfolio of patents, trademarks and service mark registrations. We have also entered into agreements that permit other companies, in exchange for fees and rights, and subject to appropriate safeguards and restrictions, to utilize certain of our patents, trademarks and service marks. We periodically receive offers from third parties to obtain licenses for patents and other intellectual rights in exchange for royalties or other payments. We also receive notices asserting that our products or services infringe on their patents and other intellectual property rights. These claims, whether against us directly or against third-party suppliers of products or services that we, in turn, sell to our customers, such as wireless handsets, could require us to pay damages, royalties, stop offering the relevant products or services and/or cease other activities. While the outcome of any litigation is uncertain, we do not believe that the resolution of any of these infringement claims or the expiration or non-renewal of any of our intellectual property rights would have a material adverse effect on our results of operations.

MAJOR CUSTOMER

No customer accounted for 10% or more of our consolidated revenues in 2017, 2016 or 2015.

COMPETITION

Information relating to competition in each of our operating segments is contained in the Annual Report under the heading "Competition" beginning on page 31, and is incorporated herein by reference pursuant to General Instruction G(2).

RESEARCH AND DEVELOPMENT

AT&T scientists and engineers conduct research in a variety of areas, including IP networking, advanced network design and architecture, network and cyber security, network operations support systems, satellite technology, video platform development and data analytics. The majority of the development activities are performed to create new services and to invent tools and systems to manage secure and reliable networks for us and our customers. Research and development expenses were $1,503 million in 2017, $1,649 million in 2016, and $1,693 million in 2015.

EMPLOYEES

As of January 31, 2018, we employed approximately 252,000 persons. Approximately 46 percent of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers (IBEW) or other unions. Contracts covering approximately 23,000 employees will expire during 2018, including approximately 10,000 traditional wireline employees in our five-state Midwest region and approximately 10,000 mobility employees in our nine-state Southeast region. In February 2018, a tentative agreement covering the mobility employees in the Southeast region was reached, which is subject to ratification. After expiration of the current agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached.

At December 31, 2017, we had approximately 524,000 retirees and dependents that were eligible to receive retiree benefits.

ITEM 1A. RISK FACTORS

Information required by this Item is included in the Annual Report under the heading "Risk Factors" on pages 44 through 47 which is incorporated herein by reference pursuant to General Instruction G(2).

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

ITEM 2. PROPERTIES

Our properties do not lend themselves to description by character and location of principal units. At December 31, 2017, of our total property, plant and equipment, central office equipment represented 30%; outside plant (including cable, wiring and other non-central office network equipment) represented approximately 22%; satellites represented 1%; other equipment, comprised principally of wireless network equipment attached to towers, furniture and office equipment and vehicles and other work equipment, represented 29%; land, building and wireless communications towers represented 12%; and other miscellaneous property represented 6%.

Substantially all of the installations of central office equipment are located in buildings and on land we own. Many garages, administrative and business offices, wireless towers, telephone centers and retail stores are leased. Property on which communication towers are located may be either owned or leased.

ITEM 3. LEGAL PROCEEDINGS

We are a party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. As of the date of this report, we do not believe any pending legal proceedings to which we or our subsidiaries are subject are required to be disclosed as material legal proceedings pursuant to this item.

We are subject from time to time to judicial and administrative proceedings brought by various governmental authorities under federal, state or local environmental laws. We are required to discuss below those proceedings in our Forms 10-Q and 10-K, which could result in monetary sanctions (exclusive of interest and costs) of $100,000 or more. However, we do not believe that any currently pending will have a material adverse effect on our results of operations.

(a) Waste Disposal Inquiry Involving DIRECTV In August 2012, a unit organized by the California Attorney General and the District Attorney for Alameda County, California notified DIRECTV that the unit was examining allegations that DIRECTV had failed to properly manage, store, transport and dispose of Hazardous and Universal Waste in accordance with the California Health & Safety Code. No litigation was filed. In November 2017, DIRECTV settled this matter for an immaterial amount and agreed to continue to abide by processes to comply with California waste regulations already implemented by AT&T affiliates in California for a period of 5 years.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT
(As of February 1, 2018)

Name	Age	Position	Held Since
Randall L. Stephenson	57	Chairman of the Board, Chief Executive Officer and President	6/2007
William A. Blase Jr.	62	Senior Executive Vice President – Human Resources	6/2007
John M. Donovan	57	Chief Executive Officer, AT&T Communications, LLC	8/2017
David S. Huntley	59	Senior Executive Vice President and Chief Compliance Officer	12/2014
Lori M. Lee	52	Chief Executive Officer-AT&T International and Global Marketing Officer	8/2017
Brian D. Lesser	43	Chief Executive Officer-AT&T Advertising and Analytics, AT&T Services, Inc.	9/2017
David R. McAtee II	49	Senior Executive Vice President and General Counsel	10/2015
Robert W. Quinn Jr.	57	Senior Executive Vice President – External and Legislative Affairs, AT&T Services, Inc.	10/2016
John T. Stankey	55	Senior Executive Vice President-AT&T/Time Warner Merger Integration Planning, AT&T Services, Inc.	8/2017
John J. Stephens	58	Senior Executive Vice President and Chief Financial Officer	6/2011

All of the above executive officers have held high-level managerial positions with AT&T or its subsidiaries for more than the past five years, except for Mr. Lesser who was previously CEO of GroupM in North America from November 2015 to September 2017 and CEO of Xaxis from January 2011 to November 2015. Executive officers are not appointed to a fixed term of office.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Our common stock is listed on the New York Stock Exchange. The number of stockholders of record as of December 31, 2017 and 2016 was 968,119 and 1,020,203. The number of stockholders of record as of February 9, 2018, was 964,164. We declared dividends, on a quarterly basis, totaling $1.97 per share in 2017 and $1.93 per share in 2016.

Other information required by this Item is included in the Annual Report under the headings "Quarterly Financial Information" on page 87, "Selected Financial and Operating Data" on page 14, and "Stock Trading Information" on the back cover, which are incorporated herein by reference pursuant to General Instruction G(2).

(c) In July 2012, the Board of Directors approved an authorization to repurchase 300 million shares, which we completed in May 2013. In March 2014, our Board of Directors approved another authorization to repurchase up to an additional 300 million shares of our common stock. For the year ended December 31, 2017, we repurchased 7 million shares for distribution through our employee benefit plans, totaling $279 million under the March 2014 authorization. For the year ended December 31, 2016, we repurchased 11 million shares totaling $444 million under the March 2014 authorization. Excluding the impact of acquisitions, the emphasis of our 2018 financing activities will be the refinancing and/or repayment of debt and the payment of dividends, subject to approval by our Board of Directors. We plan to fund our financing uses of cash through a combination of cash from operations, debt issuances and asset sales. We have existing cash reserves and access to term loan financing which may be used upon closing of our acquisition of Time Warner. The timing and mix of any debt issuance will be guided by credit market conditions and interest rate trends.

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

We will continue to fund any share repurchases through a combination of cash from operations, borrowings dependent on market conditions, or cash from the disposition of certain non-strategic investments.

A summary of our repurchases of common stock during the fourth quarter of 2017 is as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased [1,2,3]	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs [1]	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under The Plans or Programs
October 1, 2017 - October 31, 2017	35,955	$ 35.70	-	388,296,000
November 1, 2017 - November 30, 2017	15,973	33.24	-	388,296,000
December 1, 2017 - December 31, 2017	518,625	36.69	-	388,296,000
Total	570,553	$ 35.64	-	

1 In March 2014, our Board of Directors approved an authorization to repurchase up to 300 million shares of our common stock. In March 2013, our Board of Directors approved an authorization to repurchase up to 300 million shares of our common stock. The authorizations have no expiration date.

2 Of the shares purchased, 86,942 shares were acquired through the withholding of taxes on the vesting of restricted stock or through the payment in stock of taxes on the exercise price of options.

3 Of the shares repurchased, 483,611 were acquired through reimbursements from the AT&T maintained Voluntary Employee Benefit Association (VEBA) trusts or through litigation settlement.

ITEM 6. SELECTED FINANCIAL DATA

Information required by this Item is included in the Annual Report under the heading "Selected Financial and Operating Data" on page 14, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required by this Item is included in the Annual Report on pages 15 through 48, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item is included in the Annual Report under the heading "Market Risk" on page 40, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item is included in the Annual Report on pages 49 through 87, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During our two most recent fiscal years, there has been no change in the independent accountant engaged as the principal accountant to audit our financial statements, and the independent accountant has not expressed reliance on other independent accountants in its reports during such time period.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the registrant 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 in the SEC's rules and forms. The Chief Executive Officer and Chief Financial Officer have performed an evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of December 31, 2017. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the registrant's disclosure controls and procedures were effective as of December 31, 2017.

Internal Control Over Financial Reporting

(a) Management's Annual Report on Internal Control over Financial Reporting
The management of AT&T is responsible for establishing and maintaining adequate internal control over financial reporting. AT&T's internal control system was designed to provide reasonable assurance as to the integrity and reliability of the published financial statements. AT&T management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2017. 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, 2017, the Company's internal control over financial reporting is effective based on those criteria.

(b) Attestation Report of the Independent Registered Public Accounting Firm
The independent registered public accounting firm that audited the financial statements included in the Annual Report containing the disclosure required by this Item, Ernst & Young LLP, has issued an attestation report on the Company's internal control over financial reporting. The attestation report issued by Ernst & Young LLP is included in the Annual Report on page 89, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 9B. OTHER INFORMATION

There is no information that was required to be disclosed in a report on Form 8-K during the fourth quarter of 2017 but was not reported.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure at the end of Part I of this report since the registrant did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A. Information regarding directors required by Item 401 of Regulation S-K is incorporated herein by reference pursuant to General Instruction G(3) from the registrant's definitive proxy statement, dated on or about March 12, 2018 (Proxy Statement) under the heading "Management Proposal Item 1. Election of Directors."

Information required by Item 405 of Regulation S-K is incorporated herein by reference pursuant to General Instruction G(3) from the registrant's Proxy Statement under the heading "Section 16(a) Beneficial Ownership Reporting Compliance."

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the committee are Messrs. Di Piazza, Jr. and McCallister, and Mses. Taylor and Tyson. The additional information required by Item 407(d)(5) of Regulation S-K is incorporated herein by reference pursuant to General Instruction G(3) from the registrant's Proxy Statement under the heading "Audit Committee."

The registrant has adopted a code of ethics entitled "Code of Ethics" that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer, or controller or persons performing similar functions. The additional information required by Item 406 of Regulation S-K is provided in this report under the heading "General" under Part I, Item 1. Business.

ITEM 11. EXECUTIVE COMPENSATION

Information required by Item 402(k) of Regulation S-K is incorporated herein by reference pursuant to General Instruction G(3) from the registrant's Proxy Statement under the heading "Director Compensation." Information regarding officers is included in the registrant's Proxy Statement on the pages beginning with the heading "Compensation Discussion and Analysis" and ending with, and including, the pages under the heading "Potential Payments upon Change in Control" which are incorporated herein by reference pursuant to General Instruction G(3). Information required by Item 407(e)(5) of Regulation S-K is included in the registrant's Proxy Statement under the heading "Compensation Committee Report" and is incorporated herein by reference pursuant to General Instruction G(3) and shall be deemed furnished in this Annual Report on Form 10-K and will not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Information required by this Item is included in the registrant's Proxy Statement, under the heading "Director Compensation," and the pages beginning with the heading "Summary Compensation Table," and ending with, and including, the page immediately before the heading "Cost of Proxy Solicitation" which are incorporated herein by reference pursuant to General Instruction G(3).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by Item 403 of Regulation S-K is included in the registrant's Proxy Statement under the heading "Common Stock Ownership," which is incorporated herein by reference pursuant to General Instruction G(3).

Information required by Item 201(d) of Regulation S-K is incorporated herein by reference pursuant to General Instruction G(3) from the registrant's Proxy Statement under the heading "Equity Compensation Plan Information."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by Item 404 of Regulation S-K is included in the registrant's Proxy Statement under the heading "Related Person Transactions," which is incorporated herein by reference pursuant to General Instruction G(3). Information required by Item 407(a) of Regulation S-K is included in the registrant's Proxy Statement under the heading "Director Independence," which is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item is included in the registrant's Proxy Statement under the heading "Principal Accountant Fees and Services," which is incorporated herein by reference pursuant to General Instruction G(3).

Part IV

ITEM 15. EXHIBITS and FINANCIAL STATEMENT SCHEDULES
(a) Documents filed as a part of the report:

	Page
(1) Report of Independent Registered Public Accounting Firm	*
Financial Statements covered by Report of Independent Registered Public Accounting Firm:	*
Consolidated Statements of Income	*
Consolidated Statements of Comprehensive Income	*
Consolidated Balance Sheets	*
Consolidated Statements of Cash Flows	*
Consolidated Statements of Changes in Stockholders' Equity	*
Notes to Consolidated Financial Statements	

* Incorporated herein by reference to the appropriate portions of the registrant's Annual Report to Stockholders for the fiscal year ended December 31, 2017. (See Part II.)

	Page
(2) Financial Statement Schedules:	
II - Valuation and Qualifying Accounts	23

Financial statement schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

(3) Exhibits:

Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto. Unless otherwise indicated, all exhibits so incorporated are from File No. 1-8610.

Exhibit Number	
2	Agreement and Plan of Merger, dated as of October 22, 2016, among AT&T Inc., Time Warner Inc. and West Merger Sub, Inc. (Exhibit 10.1 to Form 8-K dated October 24, 2016 .)
3-a	Restated Certificate of Incorporation, filed with the Secretary of State of Delaware on December 13, 2013. (Exhibit 3.1 to Form 8-K dated December 13, 2013 .)
3-b	Bylaws amended December 18, 2015. (Exhibit 3 to Form 8-K dated December 18, 2015 .)
4-a	No instrument which defines the rights of holders of long-term debt of the registrant and all of its consolidated subsidiaries is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A), except for the instruments referred to in 4-b, 4-c, 4-d, 4-e, 4-f, 4-g, 4-h, 4-i, and 4-j below. Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument not filed herewith to the SEC upon request.

4-b	Guaranty of certain obligations of Pacific Bell Telephone Co. and Southwestern Bell Telephone Co. (Exhibit 4-c to Form 10-K for 2011 .)
4-c	Guaranty of certain obligations of Ameritech Capital Funding Corp., Indiana Bell Telephone Co. Inc., Michigan Bell Telephone Co., Pacific Bell Telephone Co., Southwestern Bell Telephone Company, Illinois Bell Telephone Company, The Ohio Bell Telephone Company, The Southern New England Telephone Company, Southern New England Telecommunications Corporation, and Wisconsin Bell, Inc. (Exhibit 4-d to Form 10-K for 2011 .)
4-d	Guarantee of certain obligations of AT&T Corp. (Exhibit 4-e to Form 10-K for 2011 .)
4-e	Indenture, dated as of May 15, 2013, between AT&T Inc. and The Bank of New York Mellon Trust Company, N.A. as Trustee. (Exhibit 4.1 to Form 8-K dated May 15, 2013 .)
4-f	Indenture dated as of November 1, 1994 between SBC Communications Inc. and The Bank of New York, as Trustee. (Exhibit 4-h to Form 10-K for 2013 .)
10-a	2018 Incentive Plan.
10-b	2016 Incentive Plan (Exhibit 10-a to Form 10-Q filed for March 31, 2016 .)
	10-b(i) Resolution Regarding John Donovan.
	10-b(ii) Resolution Regarding John Stankey.
	10-b(iii) Resolution Regarding John Stephens.
10-c	2011 Incentive Plan, amended September 24, 2015. (Exhibit 10-a to Form 10-Q filed for September 30, 2015 .)
10-d	Short Term Incentive Plan.
10-e	Supplemental Life Insurance Plan, amended September 24, 2015. (Exhibit 10-e to Form 10-Q filed for September 30, 2015 .)
10-f	Supplemental Retirement Income Plan, amended December 31, 2008. (Exhibit 10-e to Form 10-K for 2013 .)
10-g	2005 Supplemental Employee Retirement Plan, amended September 28, 2017. (Exhibit 10.1 to Form 8-K dated October 3, 2017 .)
10-h	Salary and Incentive Award Deferral Plan, amended December 31, 2004. (Exhibit 10-k to Form 10-K for 2011 .)
10-i	Stock Savings Plan, amended December 31, 2004. (Exhibit 10-l to Form 10-K for 2011 .)
10-j	Stock Purchase and Deferral Plan, amended December 15, 2017 .
10-k	Cash Deferral Plan, amended March 30, 2017. (Exhibit 10-b to Form 10-Q filed for March 31, 2017 .)
10-l	Master Trust Agreement for AT&T Inc. Deferred Compensation Plans and Other Executive Benefit Plans and subsequent amendments dated August 1, 1995 and November 1, 1999. (Exhibit 10-dd to Form 10-K for 2009 .)

10-m	Officer Disability Plan, amended January 1, 2010. (Exhibit 10-i to Form 10-Q filed for June 30, 2009 .)
10-n	AT&T Inc. Health Plan, amended February 1, 2018 .
10-o	Pension Benefit Makeup Plan No.1, amended December 31, 2016. (Exhibit 10-n to Form 10-K filed for 2017 .)
10-p	AT&T Inc. Equity Retention and Hedging Policy. (Exhibit 10.2 to Form 8-K dated December 15, 2011 .)
10-q	Administrative Plan, amended September 24, 2015. (Exhibit 10-p to Form 10-K for 2016 .)
10-r	AT&T Inc. Non-Employee Director Stock and Deferral Plan, amended September 25, 2015. (Exhibit 99.1 to Form 8-K dated September 25, 2015 .)
10-s	AT&T Inc. Non-Employee Director Stock Purchase Plan, dated June 27, 2008. (Exhibit 10-t to Form 10-K for 2013 .)
10-t	Communications Concession Program for Directors, amended and restated February 1, 2013. (Exhibit 10-aa to Form 10-K for 2012 .)
10-u	Form of Indemnity Agreement, effective July 1, 1986, between SBC (now AT&T Inc.) and its directors and officers. (Exhibit 10-bb to Form 10-K for 2011 .)
10-v	Transition Agreement by and between BellSouth Corporation and Rafael de la Vega, dated December 29, 2003. (Exhibit 10-cc to Form 10-K for 2011 .)
10-w	AT&T Corp. Executive Deferred Compensation Plan (formerly known as AT&T Corp. Senior Management Incentive Award Deferral Plan), amended and restated January 1, 2008. (Exhibit 10-aa to Form 10-K for 2013 .)
10-x	Master Trust Agreement for AT&T Corp. Deferred Compensation Plans and Other Executive Benefit Plans, effective January 13, 1994. (Exhibit 10-nn to Form 10-K for 2011 .)
	10-x(i) First Amendment to Master Trust Agreement, effective December 23, 1997. (Exhibit 10-nn(i) to Form 10-K for 2011 .)
10-y	AT&T Corp. Non-Qualified Pension Plan, amended December 31, 2008. (Exhibit 10-cc to Form 10-K for 2013 .)
10-z	AT&T Corp. Excess Benefit and Compensation Plan, amended December 31, 2008. (Exhibit 10-dd to Form 10-K for 2013 .)
10-aa	BellSouth Corporation Nonqualified Deferred Compensation Plan, dated January 1, 2005. (Exhibit 10-ss to Form 10-K for 2011 .)
10-bb	BellSouth Corporation Stock and Incentive Compensation Plan, amended June 28, 2004. (Exhibit 10-qq for Form 10-K for 2009 .)
	10-bb(i) First Amendment to the BellSouth Corporation Stock and Incentive Compensation Plan, dated September 26, 2005. (Exhibit 10-xx(i) to Form 10-K for 2011 .)

	10-bb(ii)	Second Amendment to BellSouth Corporation Stock and Incentive Compensation Plan, effective June 26, 2008. (Exhibit 10-hh(ii) to Form 10-K for 2013 .)
10-cc	BellSouth Corporation Supplemental Executive Retirement Plan, amended December 18, 2014. (Exhibit 10.2 to Form 8-K dated December 18, 2014 .)	
10-dd	BellSouth Nonqualified Deferred Income Plan, amended May 1, 2012. (Exhibit 10-fff to Form 10-K for 2012 .)	
10-ee	Cingular Wireless Cash Deferral Plan, dated November 1, 2001. (Exhibit 10-hhh to Form 10-K for 2011 .)	
10-ff	AT&T Mobility 2005 Cash Deferral Plan, dated January 1, 2005. (Exhibit 10-lll to Form 10-K for 2011 .)	
10-gg	AT&T Executive Physical Program, dated January 1, 2011. (Exhibit 10-ff to Form 10-K for 2016 .)	
10-hh	Equalization Agreement for John Stankey (Exhibit 10.1 to Form 8-K dated August 20, 2015 .)	
10-ii	Agreement between James Cicconi and AT&T Inc. (Exhibit 10-b to Form 10-Q filed for September 30, 2016 .)	
10-jj	Agreement between Ralph de la Vega and AT&T Inc. (Exhibit 10.1 to Form 8-K dated December 16, 2016 .)	
10-kk	$12,000,000,000 Amended and Restated Credit Agreement, dated December 11, 2015, among AT&T, certain lenders named therein and Citibank, N.A., as administrative agent. (Exhibit 10 to Form 8-K dated December 15, 2015 .)	
10-ll	$10,000,000,000 Term Loan Credit Agreement, dated as of November 15, 2016, among AT&T Inc., the lenders named therein and JPMorgan Chase Bank, N.A., as Agent (Exhibit 10.1 to Form 8-K dated November 15, 2016 .)	
	10-ll(i)	First Amendment to the $10,000,000,000 Term Loan Credit Agreement (increased to $16,175,000,000), dated February 2, 2018. (Exhibit 10.1 to Form 8-K dated February 5, 2018 .)
10-mm	$2,250,000,000 Term Loan Credit Agreement, dated as of September 29, 2017, among AT&T Inc., certain lenders named therein and The Bank of Nova Scotia, as Administrative Agent (Exhibit 10-f to Form 10-Q filed for September 30, 2017 .)	
12	Computation of Ratios of Earnings to Fixed Charges	
13	Portions of AT&T's Annual Report to Stockholders for the fiscal year ended December 31, 2017. Only the information incorporated by reference into this Form 10-K is included in the exhibit .	
21	Subsidiaries of AT&T Inc.	
23	Consent of Ernst & Young LLP	
24	Powers of Attorney	
31	Rule 13a-14(a)/15d-14(a) Certifications	

31.1	Certification of Principal Executive Officer
31.2	Certification of Principal Financial Officer
32	Section 1350 Certification
99	Supplemental Interim Financial Information
101	XBRL Instance Document

We will furnish to stockholders upon request, and without charge, a copy of the Annual Report to Stockholders and the Proxy Statement, portions of which are incorporated by reference in the Form 10-K. We will furnish any other exhibit at cost.

AT&T INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Allowance for Doubtful Accounts
Dollars in Millions

COL. A	COL. B	COL. C			COL. D	COL. E
		Additions				
		(1)	(2)	(3)		
	Balance at Beginning of Period	Charged to Costs and Expenses (a)	Charged to Other Accounts (b)	Acquisitions (c)	Deductions (d)	Balance at End of Period
Year 2017	**$ 661**	**1,642**	**-**	**-**	**1,640**	**$ 663**
Year 2016	$ 704	1,474	-	-	1,517	$ 661
Year 2015	$ 454	1,416	-	214	1,380	$ 704

(a) Includes amounts previously written off which were credited directly to this account when recovered. Excludes direct charges and credits to expense for nontrade receivables in the consolidated statements of income.
(b) Includes amounts related to long-distance carrier receivables which were billed by AT&T.
(c) Acquisitions of DIRECTV and wireless properties in Mexico in 2015.
(d) Amounts written off as uncollectible, or related to divested entities.

AT&T INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
Allowance for Deferred Tax Assets
Dollars in Millions

COL. A	COL. B	COL. C			COL. D	COL. E
		Additions				
		(1)	(2)	(3)		
	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts (a)	Acquisitions (b)	Deductions (c)	Balance at End of Period
Year 2017	**$ 2,283**	**2,376**	**(19)**	**-**	**-**	**$ 4,640**
Year 2016	$ 2,141	81	61	-	-	$ 2,283
Year 2015	$ 1,182	283	373	420	117	$ 2,141

(a) Includes current year reclassifications from other balance sheet accounts.
(b) Acquisitions of DIRECTV and wireless properties in Mexico in 2015.
(c) Reductions to valuation allowances related to deferred tax assets.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 20 th day of February, 2018.

AT&T INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

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

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

/s/ John J. Stephens
John J. Stephens, as attorney-in-fact
and on his own behalf as Principal
Financial Officer and Principal
Accounting Officer

February 20, 2018

Directors:

Randall L. Stephenson*	Michael B. McCallister*
Samuel A. Di Piazza, Jr.*	Beth E. Mooney*
Richard W. Fisher*	Joyce M. Roché*
Scott T. Ford*	Matthew K. Rose*
Glenn H. Hutchins*	Cynthia B. Taylor*
William E. Kennard*	Laura D'Andrea Tyson*
	Geoffrey Y. Yang*

* by power of attorney

AT&T INC.
2018 Incentive Plan

Article 1. Establishment and Purpose.

1.01 Establishment of the Plan. AT&T Inc., a Delaware corporation (the "Company" or "AT&T"), hereby establishes an incentive compensation plan (the "Plan"), as set forth in this document.

1.02 Purpose of the Plan. The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of Participants to those of the Company's stockholders, and by providing Participants with an incentive for outstanding performance.

1.03 Effective Date of the Plan. The Plan is effective on May 1, 2018.

Article 2. Definitions.

2.01 Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

(a) "Applicable Law" means the legal requirements relating to the administration of options and share-based or performance-based awards under any applicable laws of the United States, any other country, and any provincial, state, or local subdivision, any applicable stock exchange or automated quotation system rules or regulations, as such laws, rules, regulations and requirements shall be in place from time to time.

(b) "Award" means, individually or collectively, a grant or award under this Plan of Stock Options, Restricted Stock (including unrestricted Stock), Restricted Stock Units, Performance Units, or Performance Shares.

(c) "Award Agreement" means an agreement which may be entered into by each Participant and the Company, setting forth the terms and provisions applicable to Awards granted to Participants under this Plan.

(d) "Board" or "Board of Directors" means the AT&T Board of Directors.

(e) "Cause" means willful and gross misconduct on the part of an Employee that is materially and demonstrably detrimental to the Company or any Subsidiary as determined by the Committee in its sole discretion.

(f) "Change in Control" shall be deemed to have occurred if (1) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the total voting power represented by the Company's then outstanding voting securities; or (2) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new Director whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (3) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or (4) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

(g) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(h) "Committee" means the committee or committees of the Board of Directors given authority to administer the Plan as provided in Article 3.

(i) "Director" means any individual who is a member of the AT&T Board of Directors.

(j) "Disability" means, absence of an Employee from work under the relevant Company or Subsidiary long term disability plan.

(k) "Employee" means any employee of the Company or of one of the Company's Subsidiaries. "Employment" means the employment of an Employee by the Company or one of its Subsidiaries. Directors who are not otherwise employed by the Company shall not be considered Employees under this Plan.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor Act thereto.

(m) "Exercise Price" means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.

(n) "Fair Market Value" means the closing price on the NYSE for a Share on the relevant date, or if such date was not a trading day, the next preceding trading date, all as determined by the Company. A trading day is any day that the Shares are traded on the NYSE. In lieu of the foregoing, the Committee may, from time to time, select any other index or measurement to determine the Fair Market Value of Shares under the Plan, including but not limited to an average determined over a period of trading days.

(o) "Insider" means an Employee who is, on the relevant date, an officer, director, or ten percent (10%) beneficial owner of the Company, as those terms are defined under Section 16 of the Exchange Act.

(p) "NYSE" or "New York Stock Exchange." If the New York Stock Exchange is no longer the principal exchange on which the stock is listed, then NYSE shall refer to such principal exchange unless otherwise provided by the Disinterested Committee.

(q) "Officer Level Employee" means a Participant who is an officer level Employee for compensation purposes as indicated on the records of AT&T. References to records of AT&T shall include the records of its Subsidiaries.

(r) "Option" means an option to purchase Shares from AT&T.

(s) "Participant" means an Employee or former Employee who holds an outstanding Award granted under the Plan.

(t) "Performance Unit" and "Performance Share" each mean an Award granted to an Employee pursuant to Article 8 herein.

(u) "Retirement" or to "Retire" means the Participant's Termination of Employment for any reason other than death, Disability, or for Cause, on or after the earlier of the following dates, or as otherwise provided by the Committee: (1) for Officer Level Employees, the date the Participant is at least age fifty-five (55) and has completed a 5 year Term of Employment; provided, however, that individuals who are designated as an Officer on or after October 1, 2015, must have completed a 10-year Term of Employment; or (2) the date the Participant has attained one of the following combinations of age and service, except as otherwise indicated below:

Term of Employment	Age
10 years or more	65 or older
20 years or more	55 or older
25 years or more	50 or older
30 years or more	Any age

For purposes of this Plan only, Term of Employment shall have the same meaning as in the AT&T Pension Benefit Plan – Nonbargained Program ("Pension Plan"), as that may be amended from time to time, except that service with a Participant's employer shall be counted as though the employer were a "Participating Company" under the Pension Plan and the Employee was a participant in the Pension Plan.

(v) "Senior Manager" means a Participant who is a senior manager for compensation purposes as indicated on the records of AT&T.

(w) "Severance Termination of Employment" means a Termination of Employment where the Participant receives a cash severance payment under a severance plan of the Participant's employer or pursuant to an individually negotiated severance agreement.

(x) "Shares" or "Stock" means the shares of common stock of the Company.

(y) "Subsidiary" means any corporation, partnership, venture or other entity in which AT&T holds, directly or indirectly, a fifty percent (50%) or greater ownership interest.

(z) "Surplus Termination of Employment" means a Termination of Employment as a result of force surplus, technological, operational, organizational and/or structural changes affecting the relevant employer without an offer for comparable employment, or an Employment Termination that occurs as a result of declining a Company initiated or offered job relocation to a work location that is more than fifty (50) miles from the employee's work location and that increases the employee's work commute.

(aa) "Termination of Employment" or a similar reference means the event where the Employee is no longer an Employee of the Company or of any Subsidiary, including but not limited to where the employing company ceases to be a Subsidiary. With respect to any Award that provides "nonqualified deferred compensation" within the meaning of Section 409A of the Code, "Termination of Employment" shall mean a "separation from service" as defined under Section 409A of the Code.

Article 3. Administration.

3.01 The Committee. Administration of the Plan shall be as follows:

(a) With respect to Insiders, the Plan and Awards hereunder shall be administered by the Human Resources Committee of the Board or such other committee as may be appointed by the Board for this purpose (each of the Human Resources Committee and such other committee is the "Disinterested Committee"), where each Director on such Disinterested Committee is a "Non-Employee Director," as that term is used in Rule 16b-3 under the Exchange Act (or any successor designation for determining the committee that may administer plans, transactions or awards exempt under Section 16(b) of the Exchange Act), as that rule may be modified from time to time.

(b) With respect to persons who are not Insiders, the Plan and Awards hereunder shall be administered by each of the Disinterested Committee and such other committee, if any, to which the Board may delegate such authority (such other Committee shall be the "Non-Insider Committee"), and each such Committee shall have full authority to administer the Plan and all Awards hereunder, except as otherwise provided herein or by the Board. The Disinterested Committee may, from time to time, limit the authority of the Non-Insider Committee in any way. Any Committee may be replaced by the Board at any time.

(c) Except as otherwise indicated from the context, references to the "Committee" in this Plan shall be to either of the Disinterested Committee or the Non-Insider Committee.

3.02 Authority of the Committee. The Committee shall have complete control over the administration of the Plan and shall have the authority in its sole discretion to exercise all of the powers granted to it under the Plan, which shall include but not be limited to the authority to:

(a) construe, interpret and implement the Plan, grant terms and grant notices, and all Award Agreements;

(b) prescribe, amend and rescind rules and regulations relating to the Plan, including rules governing its own operations;

(c) make all determinations necessary or advisable in administering the Plan or any Award thereunder;

(d) correct any defect, supply any omission and reconcile any inconsistency in the Plan; and

(e) with respect to Awards:

(i) grant Awards,

(ii) determine who shall receive Awards,

(iii) determine when Awards shall be granted

(iv) determine the terms and conditions of Awards, including, but not limited to, conditioning the exercise, vesting, payout or other terms or conditions of an
Award on the achievement of Performance Goals (defined in Article 8), and

(v) determine whether and to the extent the terms and conditions of Awards have been achieved or satisfied.

3.03 No Award may be made under the Plan after April 30, 2028.

3.04 References to determinations or other actions by AT&T or the Company, herein, shall mean actions authorized by the Committee, the Chairman of the Board of AT&T, the Senior Executive Vice President of AT&T in charge of Human Resources or their respective successors or duly authorized delegates, in each case in the discretion of such person, provided, however, only the Disinterested Committee may take action with respect to Insiders with regard to granting or determining the terms of Awards or other matters that would require the Disinterested Committee to act in order to comply with Rule 16b-3 promulgated under the Exchange Act.

3.05 All determinations and decisions made by AT&T pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive, and binding on all persons, including but not limited to the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

3.06 This Plan is not intended to and does not limit the discretion of the Committee or the Company in any way to pay any form of compensation in lieu of or in addition to the Awards or other compensation provided by this Plan.

Article 4. Shares Subject to the Plan.

4.01 Number of Shares . Subject to adjustment as provided in Section 4.03 herein, the number of Shares available for issuance under the Plan shall not exceed one hundred fifty (150) million Shares. The Shares granted under this Plan may be either authorized but unissued or reacquired Shares. The Disinterested Committee shall have full discretion to determine the manner in which Shares available for grant are counted in this Plan. In any calendar year, no individual may be granted one or more awards of Restricted Stock, Restricted Stock Units, Performance Shares, or any combination thereof, which, in aggregate, would have a potential payout equivalent to more than five percent (5%) of the Shares approved for issuance under this Plan.

4.02 Share Accounting. Without limiting the discretion of the Committee under this section, unless otherwise provided by the Disinterested Committee, the following rules will apply for purposes of the determination of the number of Shares available for grant under the Plan or compliance with the foregoing limits:

(a) If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if Shares acquired pursuant to an Award subject to forfeiture are forfeited under the terms of the Plan or the relevant Award, the Shares allocable to the terminated portion of such Award or such forfeited Shares shall again be available for issuance under the Plan.

(b) Shares shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash, other than an Option.

(c) When an Option is exercised (including but not limited to a Stock-Settled exercise), the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the Option is exercised.

4.03 Adjustments in Authorized Plan Shares and Outstanding Awards. In the event of any merger, reorganization, consolidation, recapitalization, separation, split-up, liquidation, Share combination, Stock split, Stock dividend, or other change in the corporate structure of the Company affecting the Shares, an adjustment shall be made in the number and class of Shares which may be delivered under the Plan (including but not limited to individual limits), and in the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan, and/or the number of outstanding Options, Shares of Restricted Stock, and Performance Shares (and Performance Units and other Awards whose value is based on a number of Shares) constituting outstanding Awards, as may be determined to be appropriate and equitable by the Disinterested Committee, in its sole discretion, to prevent dilution or enlargement of rights.

Article 5. Eligibility and Participation.

5.01 Eligibility. All management Employees are eligible to receive Awards under this Plan.

5.02 Actual Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Employee is entitled to receive an Award unless selected by the Committee.

Article 6. Stock Options.

6.01 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to eligible Employees at any time and from time to time, and under such terms and conditions, as shall be determined by the Committee. The Committee shall have discretion in determining the number of Shares subject to Options granted to each Employee; provided, however, that no single Employee may receive Options under this Plan for more than two percent (2%) of the Shares approved for issuance under this Plan during any calendar year. The Committee may not grant Incentive Stock Options, as described in Section 422 of the Code, under this Plan.

6.02 Form of Issuance. The Committee may require, as a condition to receiving an Option Award, that the Participant enter into an Option Award Agreement, setting forth the terms and conditions of the Award. In lieu of an Option Award Agreement, the Committee may provide the terms and conditions of an Option Award in a notice to the Participant, in the resolution approving the Award, or in such other manner as it deems appropriate. Such terms and conditions shall include the Exercise Price, the duration of the Option, the number of Shares to which an Option pertains (unless otherwise provided by the Committee, each Option may be exercised to purchase one Share), and such other provisions as the Committee shall determine.

6.03 Exercise Price. Unless a greater Exercise Price is determined by the Committee, the Exercise Price for each Option Awarded under this Plan shall be equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted. Subject to adjustment as provided in Section 4.03 herein or as otherwise provided herein, the terms of an Option may not be amended to reduce the exercise price nor may Options be cancelled or exchanged for cash, other awards or Options with an exercise price that is less than the exercise price of the original Options.

6.04 Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant (which duration may be extended by the Committee); provided, however, that no Option shall be exercisable later than the tenth (10th) anniversary date of its grant. In the event the Committee does not specify the expiration date of an Option, then such Option will expire on the tenth (10th) anniversary date of its grant, except as otherwise provided herein.

6.05 Vesting of Options. A grant of Options shall vest at such times and under such terms and conditions as determined by the Committee; provided, however, unless another vesting period is provided by the Committee at or before the grant of an Option, one-third of the Options will vest on each of the first three anniversaries of the grant; if one Option remains after equally dividing the grant by three, it will vest on the first anniversary of the grant, if two Options remain, then one will vest on each of the first two anniversaries. The Committee shall have the right to accelerate the vesting of any Option; however, the Chairman of the Board or the Senior Executive Vice President-Human Resources, or their respective successors, or such other persons designated by the Committee, shall have the authority to accelerate the vesting of Options for any Participant who is not an Insider.

6.06 Exercise of Options.

(a) An Option shall be exercised by providing notice to the designated agent selected by the Company (if no such agent has been designated, then to the Company), in the manner and form determined by the Company, which notice shall be irrevocable, setting forth the exact number of Shares with respect to which the Option is being exercised and including with such notice payment of the Exercise Price, as applicable. When an Option has been transferred, the Company or its designated agent may require appropriate documentation that the person or persons exercising the Option, if other than the Participant, has the right to exercise the Option. No Option may be exercised with respect to a fraction of a Share.

(b) Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant. Unless otherwise provided by the Committee, exercises of Options may be effected only on days and during the hours that the NYSE is open for regular trading. The Company may change or limit the times or days Options may be exercised. If an Option expires on a day or at a time when exercises are not permitted, then the Options may be exercised no later than the immediately preceding date and time that the Options were exercisable.

6.07 Payment of the Exercise Price.

(a) Unless otherwise determined by the Committee, the Exercise Price shall be paid in full at the time of exercise. No Shares shall be issued or transferred until full payment has been received or the next business day thereafter, as determined by AT&T.

(b) The Committee may, from time to time, determine, modify, or limit the method or methods of exercising Options or the manner in which the Exercise Price is to be paid. Unless otherwise provided by the Committee in full or in part:

(i) Payment may be made in cash.

(ii) An Option may be "stock settled," which shall mean upon exercise of an Option, the Company shall deliver that number of shares of Stock found by taking the difference between (A) the Fair Market Value of the Stock as of the first day that the Stock was traded on the NYSE immediately preceding the exercise date, multiplied by the number of Options being exercised and (B) the total Exercise Price of the Options being exercised, and dividing such difference by the Fair Market Value of the Stock as of the first day that the Stock was traded on the NYSE immediately preceding the exercise date.

(iii) If the Company has designated an agent to process Option exercises, an Option may be exercised by issuing an exercise notice together with instructions to such agent irrevocably instructing the agent (which shall include any broker-dealer engaged by the agent): (A) to immediately sell (which shall include an exercise notice that becomes effective upon execution of a sale order) a sufficient portion of the Shares to be received from the Option exercise to pay the Exercise Price of the Options being exercised and the required tax withholding, and (B) to deliver on the settlement date the portion of the proceeds of the sale equal to the Exercise Price and tax withholding to the Company. In the event the agent sells any Shares on behalf of a Participant, the agent shall be acting solely as the agent of the Participant, and the Company disclaims any responsibility for the actions of the agent in making any such sales. No Shares shall be issued until the settlement date and until the proceeds (equal to the Exercise Price and tax withholding) are paid to the Company.

6.08 Termination of Employment. Unless otherwise provided by the Committee, the following limitations on exercise of Options shall apply upon Termination of Employment:

(a) Termination by Death or Disability. In the event of the Participant's Termination of Employment by reason of death or Disability, all outstanding Options granted to that Participant shall immediately vest as of the date of Termination of Employment and may be exercised, if at all, no more than five (5) years from the date of the Termination of Employment, unless the Options, by their terms, expire earlier.

(b) Termination for Cause. In the event of the Participant's Termination of Employment for Cause, then the Committee may, in its sole discretion, forfeit all outstanding Options held by the Participant to the Company and no additional exercise period shall be allowed, regardless of the vested status of the Options.

(c) Retirement or Other Termination of Employment. In the event of the Participant's Termination of Employment for any reason other than the reasons set forth in (a) or (b), above:

(i) If upon the Participant's Termination of Employment, the Participant is eligible to Retire, then all outstanding unvested Options granted to that Participant shall immediately vest as of the date of the Participant's Termination of Employment;

(ii) All outstanding Options which are vested as of the effective date of Termination of Employment may be exercised, if at all, no more than five (5) years from the date of Termination of Employment if the Participant is eligible to Retire, or three (3) months from the date of the Termination of Employment if the Participant is not eligible to Retire, as the case may be, unless in either case the Options, by their terms, expire earlier; and

(iii) In the event of the death of the Participant after Termination of Employment, this paragraph (c) shall still apply and not paragraph (a), above.

(d) Options not Vested at Termination. Except as provided in paragraphs (a) and (c)(i), above, all Options held by the Participant which are not vested on or before the effective date of Termination of Employment shall immediately be forfeited to the Company (and the Shares subject to such forfeited Options shall once again become available for issuance under the Plan).

(e) Other Terms and Conditions. Notwithstanding the foregoing, the Committee may, in its sole discretion, establish different, or waive, terms and conditions pertaining to the effect of Termination of Employment on Options, whether or not the Options are outstanding, but no such modification shall shorten the terms of Options issued prior to such modification or otherwise be materially adverse to the Participant.

6.09 Restrictions on Exercise and Transfer of Options. Unless otherwise provided by the Committee:

(a) During the Participant's lifetime, the Participant's Options shall be exercisable only by the Participant or by the Participant's guardian or legal representative. After the death of the Participant, except as otherwise provided by AT&T's Rules for Employee Beneficiary Designations, an Option shall only be exercised by the holder thereof (including, but not limited to, an executor or administrator of a decedent's estate) or his or her guardian or legal representative.

(b) No Option shall be transferable except: (i) in the case of the Participant, only upon the Participant's death and in accordance with the AT&T Rules for Employee Beneficiary Designations; and (ii) in the case of any holder after the Participant's death, only by will or by the laws of descent and distribution.

Article 7. Restricted Stock.

7.01 Grant of Restricted Stock . Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to eligible Employees in such amounts and upon such terms and conditions as the Committee shall determine. In addition to any other terms and conditions imposed by the Committee, vesting of Restricted Stock may be conditioned upon the achievement of Performance Goals in the same manner as provided in Section 8.04, herein, with respect to Performance Shares.

7.02 Restricted Stock Agreement . The Committee may require, as a condition to receiving a Restricted Stock Award, that the Participant enter into a Restricted Stock Award Agreement, setting forth the terms and conditions of the Award. In lieu of a Restricted Stock Award Agreement, the Committee may provide the terms and conditions of an Award in a notice to the Participant of the Award, on the Stock certificate representing the Restricted Stock, in the resolution approving the Award, or in such other manner as it deems appropriate.

7.03 Transferability . Except as otherwise provided in this Article 7, and subject to any additional terms in the grant thereof, Shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until fully vested.

7.04 Restrictions .

(a) The Restricted Stock shall be subject to such vesting terms, including the achievement of Performance Goals (as described in Section 8.04), as may be determined by the Committee. Unless otherwise provided by the Committee, to the extent Restricted Stock is subject to any condition to vesting, if such condition or conditions are not satisfied by the time the period for achieving such condition has expired, such Restricted Stock shall be forfeited. The Committee may impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including but not limited to a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock and/or restrictions under applicable Federal or state securities laws; and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions. The Committee may also grant Restricted Stock without any terms or conditions in the form of vested Stock Awards.

(b) The Company shall have the right to retain the certificates, if any, representing Shares of Restricted Stock in the Company's possession until such time as the Shares are fully vested and all conditions and/or restrictions applicable to such Shares have been satisfied.

7.05 Removal of Restrictions . Except as otherwise provided in this Article 7 or otherwise provided in the grant terms, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after completion of all conditions to vesting, if any. However, the Committee, in its sole discretion, shall have the right to immediately vest the shares and waive all or part of the restrictions and conditions with regard to all or part of the Shares held by any Participant at any time.

7.06 Voting Rights, Dividends and Other Distributions . Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights and, unless otherwise provided in the grant terms, shall receive all dividends and distributions paid with respect to such Shares. The Committee may require that dividends and other distributions, other than regular cash dividends, paid to Participants with respect to Shares of Restricted Stock be subject to the same restrictions and conditions as the Shares of Restricted Stock with respect to which they were paid. If any such dividends or distributions are paid in Shares, the Shares shall automatically be subject to the same restrictions and conditions as the Shares of Restricted Stock with respect to which they were paid.

7.07 Termination of Employment Due to Death or Disability . In the event of the Participant's Termination of Employment by reason of death or Disability, all restrictions imposed on outstanding Shares of Restricted Stock held by the Participant shall immediately lapse and the Restricted Stock shall immediately become fully vested as of the date of Termination of Employment.

7.08 Termination of Employment for Other Reasons . Unless otherwise provided by the Committee, in the event of the Participant's Termination of Employment for any reason other than due to death, Disability, or Surplus Termination of Employment, all Shares of Restricted Stock held by the Participant which are not vested as of the effective date of Termination of Employment immediately shall be forfeited and returned to the Company.

7.09 Restricted Stock Units .

(a) In lieu of or in addition to Restricted Stock, the Committee may grant Restricted Stock Units under such terms and conditions as shall be determined by the Committee. Restricted Stock Units shall be subject to the same terms and conditions under this Plan as Restricted Stock except as otherwise provided in this Section 7.09 or as otherwise provided by the Committee. Except as otherwise provided by the Committee, the award shall be settled and pay out promptly upon vesting (to the extent permitted by Section 409A of the Code), and the Participant holding such Restricted Stock Units shall receive, as determined by the Committee, Shares (or cash equal to the Fair Market Value of the number of Shares as of the date the award becomes payable) equal to the number of such Restricted Stock Units. Restricted Stock Units shall not be transferable, shall have no voting rights, and shall not receive dividends, but shall, unless otherwise provided by the Committee, receive dividend equivalents at the time and at the same rate as dividends are paid on Shares with the same record and pay dates.

(b) Except as otherwise provided by the Committee, upon a Participant's Termination of Employment due to death or Disability or upon becoming or being Retirement eligible, his or her Restricted Stock Units will vest, and in the case of death, will pay out promptly, and in other cases, will pay out at the scheduled distribution date. If the Participant dies after Termination of Employment, vested Restricted Stock Units will be promptly paid out.

7.10 Surplus Termination of Employment. Except as otherwise provided by the Committee, in the event of a Surplus Termination of Employment of a Participant that occurs prior to the vesting date of a grant of Restricted Stock or Restricted Stock Units made to such Participant, such grant shall be pro-rated and vested as follows: the number of the Participant's unvested Restricted Stock or Restricted Stock Units shall be prorated by multiplying the number of unvested Restricted Stock or Restricted Stock Units by the number of months in the restriction period during which the Participant worked at least one day divided by the total number of months in the restriction period, and such prorated amount shall be immediately vested; provided, however, a grant of Restricted Stock Units shall not be payable until the scheduled distribution date, or as otherwise provided in the Plan.

Article 8. Performance Units and Performance Shares.

8.01 Grants of Performance Units and Performance Shares . Subject to the terms of the Plan, Performance Shares and Performance Units may be granted to eligible Employees at any time and from time to time, as determined by the Committee. The Committee shall have complete discretion in determining the number of Performance Units and/or Performance Shares Awarded to each Participant and the terms and conditions of each such Award.

8.02 Value of Performance Shares and Units.

(a) A Performance Share is equivalent in value to a Share.

(b) A Performance Unit shall be equal in value to a fixed dollar amount determined by the Committee. The Committee may denominate a Performance Unit Award in dollars instead of Performance Units.

8.03 Performance Period . The Performance Period for Performance Shares and Performance Units is the period over which the Performance Goals are measured. The Performance Period is set by the Committee for each Award.

8.04 Performance Goals .

For each Award of Performance Shares or Performance Units, the Committee shall establish (and may establish for other Awards) performance objectives ("Performance Goals") for the Company, its Subsidiaries, and/or divisions of any of foregoing, using such criteria, exceptions and other terms and conditions as it shall determine.

8.05 Dividend Equivalents on Performance Shares. Unless otherwise provided by the Committee, a cash payment ("Dividend Equivalent") in an amount equal to the dividend payable on one Share shall be made to a Participant for each Performance Share held by such Participant on the record date for the dividend. Such Dividend Equivalent, if any, will be payable at the time the relevant AT&T common stock dividend is payable or at such other time as determined by the Committee, and may be modified or terminated by the Committee at any time. Notwithstanding the foregoing, unless otherwise provided by the Committee, Dividend Equivalents paid with respect to Performance Shares granted to an Officer Level Employee shall only be paid on the number of Performance Shares actually distributed and such payment shall be made when the related Performance Shares are distributed.

8.06 Form and Timing of Payment of Performance Units and Performance Shares .

(a) As soon as practicable after the applicable Performance Period has ended and all other conditions (other than Committee actions) to conversion and distribution of a Performance Share and/or Performance Unit Award have been satisfied (or, if applicable, at such other time determined by the Committee at or before the establishment of the Performance Goal), the Committee shall determine whether and the extent to which the Performance Goals were met for the applicable Performance Units and Performance Shares. If the Committee determines that the Performance Goals have been met, then the number of Performance Units and Performance Shares to be converted into Stock and/or cash and distributed to the Participants shall be determined in accordance with the Performance Goals for such Awards, subject to any limits imposed by the Committee.

(b) Payment of Performance Units and Performance Shares shall be made in a single lump sum, as soon as reasonably administratively possible following the determination of the number of Shares or amount of cash to which the Participant is entitled but not later than the 15 th day of the third month following the end of the applicable Performance Period.

(c) Performance Units will be distributed to Participants in the form of cash. Unless otherwise provided by the Committee, Performance Shares will be distributed to Participants in the form of fifty percent (50%) Stock and fifty percent (50%) Cash.

(d) At any time prior to the distribution of the Performance Shares and/or Performance Units, unless otherwise provided by the Committee or prohibited by this Plan (such as in the case of a Change in Control), the Committee shall have the authority to modify the Performance Goals or the terms and conditions of Performance Units or Performance Shares, reduce or eliminate the number of Performance Units or Performance Shares to be converted and distributed, cancel any part or all of a grant or award of Performance Units or Performance Shares, or to mandate the form in which the Award shall be paid (i.e., in cash, in Stock or both, in any proportions determined by the Committee).

(e) Notwithstanding anything to the contrary in this Plan, after a Change in Control, the payout of Performance Units and Performance Shares shall be determined exclusively by the attainment of the Performance Goals in effect prior to the Change in Control, and such Performance Goals may not be modified after such Change in Control. In addition, after a Change in Control, other than an adjustment to the awards based on the extent to which the Performance Goals were achieved, AT&T shall not reduce or eliminate the number of Performance Units or Performance Shares or cancel any part or all of a grant or award of Performance Units or Performance Shares.

(f) For the purpose of converting Performance Shares into cash and distributing the same to the holders thereof (or for determining the amount of cash to be deferred), the value of a Performance Share shall be the Fair Market Value of a Share on the date the Committee authorizes the payout of Awards. Performance Shares to be distributed in the form of Stock will be converted at the rate of one (1) Share per Performance Share.

8.07 Death or Disability. In the event of the Participant's death during a Performance Period, the Participant shall receive a lump sum payout of the related outstanding Performance Units and Performance Shares calculated as if all unfinished Performance Periods had ended with one hundred percent (100%) of the Performance Goals achieved, valued as of the date of death and payable as soon thereafter as reasonably possible but not later than the 15th day of the third month after the end of the calendar year in which such death occurred. Where the amount or part of Dividend Equivalents is determined by the number of Performance Shares that are paid out or is otherwise determined by a performance measure, and the related Performance Period for the Dividend Equivalents was not completed at death, then the Dividend Equivalents will be calculated as though one hundred percent (100%) of the goals were achieved and paid as soon as reasonably possible. A Termination of Employment due to Disability will not affect a Participant's Award.

8.08 Retirement, Surplus Termination, Severance Termination, or Other Termination. Unless the Committee determines otherwise at any time, in the event of the Participant's Termination of Employment during the Performance Period while Retirement eligible, in the event of a Surplus Termination of Employment, Severance Termination of Employment, and in each case, not due to death or Disability, then upon such Termination, the amount of the Participant's Performance Units and number of Performance Shares shall be adjusted; the revised Awards shall be determined by multiplying the amount of the Performance Units and the number of Performance Shares, as applicable, by the number of months the Participant worked at least one day during the respective Performance Period divided by the number of months in the Performance Period, to be paid, if at all, at the same time and under the same terms that such outstanding Performance Units or Performance Shares would otherwise be paid; provided, however, if the Termination of Employment occurs during the Performance Period and is for a reason other than Death, Disability, Surplus Termination of Employment, or Severance Termination of Employment and while not Retirement eligible, then the related Award shall be cancelled upon such Termination.

8.09 Nontransferability. Performance Units and Performance Shares are not transferable.

Article 9. Beneficiary Designation.

9.01 In the event of the death of a Participant, distributions or Awards under this Plan, except for Restricted Stock, shall pass in accordance with the AT&T Rules for Employee Beneficiary Designations, as the same may be amended from time to time. A Participant's most recent Beneficiary Designation that is applicable to awards under the 1996 Stock and Incentive Plan, the 2001 Incentive Plan, the 2006 Incentive Plan, the 2011 Incentive Plan or the 2016 Incentive Plan will also apply to distributions or awards under this Plan, except for Restricted Stock, unless and until the Participant provides to the contrary in accordance with the procedures set forth in such Rules.

Article 10. Employee Matters.

10.01 Employment Not Guaranteed . Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's Employment at any time, nor confer upon any Participant any right to continue in the employ of the Company or one of its Subsidiaries.

10.02 Participation . No Employee shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

10.03 Loyalty Conditions and Enforcement . This section relates solely to Awards granted to a Participant who is an Officer Level Employee or a Senior Manager as of the date the Award is made.

(a) Each Award under the Plan is intended to closely align the Participant's long-term interests with those of the Company and its shareholders, and the conditions set forth in subsections (b) or (c) hereof (collectively, the "Loyalty Conditions") are intended to protect the Company's critical need for each Participant's loyalty to the Company and its shareholders. If any Participant does not comply with a Loyalty Condition, either during employment or within the periods described below following Termination of Employment for any reason, then the Participant is acting contrary to the long-term interests of the Company, and there will be a failure of the consideration on which the Participant received any Award or Awards pursuant to the Plan. Accordingly, unless otherwise provided in the Award, as a condition of such Award, the Participant is deemed to agree that he shall not, without obtaining the written consent of AT&T in advance, violate the Loyalty Conditions of this Section. Unless otherwise expressly provided in an Award Agreement, if the Participant violates a Loyalty Condition, then the Company may terminate any outstanding, unexercised, unexpired, unpaid, or deferred Awards ("Award Termination"), rescind any exercise, payment or delivery pursuant to any Award or Awards ("Rescission"), or recapture any cash or Shares (whether restricted or unrestricted) issued pursuant to any Award or Awards, or proceeds from the Participant's sale of such Shares

("Recapture"). Notwithstanding any provision to the contrary, nothing in this Plan shall be interpreted to prohibit, limit or interfere with a Participant's right to report possible violations of federal, state or local law or regulation to any governmental or law enforcement agency or entity, including, but not limited to, the Department of Justice, the Securities and Exchange Commission, the Federal Communications Commission or Congress, to make other disclosures that are protected under the whistleblower or other provision of federal, state or local law or regulation, or to receive an award, reward, or other compensation therefore. Similarly, a Participant may report such possible violations to anyone in his or her chain of command, the AT&T Legal Department, AT&T Asset Protection, or any other AT&T group responsible for compliance with laws or AT&T policy.

(b) A Participant shall not, without the Company's prior written authorization, (i) disclose to anyone outside the Company or use, other than in the Company's business, any Confidential Information, or (ii) disclose any trade secrets of the Company, as that term is defined under Applicable Law, for as long as such information is not generally known to the Company's competitors through no fault or negligence of the Participant.

"Confidential Information" means all information belonging to, or otherwise relating to the business of the Company, which is not generally known, regardless of the manner in which it is stored or conveyed to Participant, and which the Company has taken reasonable measures under the circumstances to protect from unauthorized use or disclosure. Confidential Information includes trade secrets as well as other proprietary knowledge, information, know-how, and non-public intellectual property rights, including unpublished or pending patent applications and all related patent rights, formulae, processes, discoveries, improvements, ideas, conceptions, compilations of data, and data, whether or not patentable or copyrightable and whether or not it has been conceived, originated, discovered, or developed in whole or in part by Participant. For example, Confidential Information includes, but is not limited to, information concerning the Company's business plans, budgets, operations, products, strategies, marketing, sales, inventions, designs, costs, legal strategies, finances, employees, customers, prospective customers, licensees, or licensors; information received from third parties under confidential conditions; or other valuable financial, commercial, business, technical or marketing information concerning the Company, or any of the products or services made, developed or sold by the Company. Confidential Information does not include information that (i) was generally known to the public at the time of disclosure; (ii) was lawfully received by Participant from a third party; (iii) was known to Participant prior to receipt from the Company; or (iv) was independently developed by Participant or independent third parties; in each of the foregoing circumstances, this exception applies only if such public knowledge or possession by an independent third party was without breach by Participant or any third party of any obligation of confidentiality or non-use, including but not limited to the obligations and restrictions set forth in this Section.

(c) A Participant shall not, without the Company's prior written authorization, during his or her employment by the Company or any of its Subsidiaries, or within two years after the Termination of Employment for any reason, engage in any of the following conduct:

(i) own, operate or control, or participate in the ownership, operation or control of, any business enterprise (including, without limitation, any corporation, partnership, proprietorship or other venture) that competes with the Company in the Restricted Business anywhere in the Restricted Territory;

(ii) become employed as an officer or executive by any business enterprise (including, without limitation, any corporation, partnership, proprietorship or other venture) that competes with the Company in the Restricted Business anywhere in the Restricted Territory, if such employment or engagement requires Participant to compete against the Company in the Restricted Business;

(iii) solicit any nonclerical employee of the Company with whom the Participant had Contact during his or her employment to terminate employment with the Company; or

(iv) commit any breach of Participant's fiduciary duty or the duty of loyalty, as determined by Applicable Law,

For purposes of this Section, the term "Restricted Business" means the business of providing communications or connectivity services, including both wireless and wire-lined telephone, messaging, Internet, data, and related services; the term "Restricted Territory" shall mean the state in which the Participant maintained his or her principal office with the Company on the date the Award was granted; and the term "Contact" means interaction between the Participant and the nonclerical employee during performance of Participant's job responsibilities on behalf of the Company.

(d) Coincidentally with the exercise, receipt of payment, or delivery of cash or Shares pursuant to an Award, the Company may require that the Participant shall give a certification to the Company in writing if the Participant is not for any reason in full compliance with the terms and conditions of the Plan, including its Loyalty Conditions. If a Termination of Employment has occurred for any reason, the Participant's certification shall state the name and address of the Participant's then-current employer

(e) or any entity for which the Participant performs business services and the Participant's title, and shall identify any organization or business in which the Participant owns an equity interest of greater than five percent.

(f) If the Company determines, in its sole and absolute discretion, that a Participant has violated any of the Loyalty Conditions, then the Committee may, in its sole and absolute discretion, impose an Award Termination, Rescission, and/or Recapture with respect to any or all of the Participant's Awards, including any Shares or cash associated therewith, or any proceeds thereof.

(g) Within ten days after receiving notice from the Company of any such activity described in subsections (b) or (c) above, the Participant shall deliver to the Company the cash or Shares acquired pursuant to any and all Awards, or, if Participant has sold the Shares, the gain realized, or payment received as a result of the rescinded exercise, payment, or delivery; provided, that if the Participant returns Shares that the Participant purchased pursuant to the exercise of an Option (or the gains realized from the sale of such Shares), the Company shall promptly refund the exercise price, without earnings or interest, that the Participant paid for the Shares. Any payment by the Participant to the Company pursuant to this Section shall be made either in cash or by returning to the Company the number of Shares that the Participant received in connection with the rescinded exercise, payment, or delivery. It shall not be a basis for Award Termination, Rescission or Recapture if, after a Termination of Employment, the Participant purchases, as an investment or otherwise, stock or other securities of an organization engaged in the Restricted Business, so long as (i) such stock or other securities are listed upon a recognized securities exchange or traded over the counter, and (ii) such investment does not represent more than a ten percent (10%) equity interest in the organization or business.

(h) Notwithstanding the foregoing provisions of this Section, the Company has sole and absolute discretion not to require Award Termination, Rescission and/or Recapture, and its determination not to require Award Termination, Rescission and/or Recapture with respect to any particular act by a particular Participant or Award shall not in any way reduce or eliminate the Company's authority to require Award Termination, Rescission and/or Recapture with respect to any other act or Participant or Award. Nothing in this Section shall be construed to impose obligations on the Participant to refrain from engaging in lawful competition with the Company after the Participant's Termination of Employment that does not violate subsections (b) or (c) of this Section, other than any obligations that are part of any separate agreement between the Company and the Participant or that arise under Applicable Law.

(i) All administrative and discretionary authority given to the Company under this Section shall be exercised by the most senior human resources executive of the Company or such other person or committee (including without limitation the Committee) as the Committee may designate from time to time.

(j) If any provision within this Section is determined to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted by Applicable Law, and shall automatically be deemed amended in a manner consistent with its objectives and any limitations required under Applicable Law.

10.04 Reimbursement of Company for Unearned or Ill-gotten Gains. The Participant shall repay to the Company any amount received under any Award, and the Company may cancel or forfeit any unpaid or unvested Award, in each case to the extent required under any policy adopted at any time by the Company pursuant to any applicable listing standards established under Section 10D of the Securities Exchange Act of 1934. This section shall not limit the Company's right to revoke or cancel an award or take other action against a recipient of an award for any other reason, including but not limited to misconduct.

Article 11. Amendment and Termination of Plan or Awards.

11.01 Amendment and Termination. At any time and from time to time, the Board or the Disinterested Committee may amend or terminate the Plan. The Board, the Disinterested Committee, or the Non-Insider Committee (subject to Section 3.01) may amend an Award in whole or in part. Notwithstanding the foregoing, no termination, amendment, or modification of the Plan or any Award (other than Performance Shares or Performance Units) that adversely affects in any material way any Award previously granted under the Plan shall be made without the written consent of the Participant holding such Award; provided, however, that any such modification made for the purpose of complying with Section 409A of the Code or due to changes in applicable law may be made by the Company without the consent of any Participant.

11.02 Delay in Payment . To the extent required in order to avoid the imposition of any interest and/or additional tax under Section 409A(a)(1)(B) of the Code, any amount that is considered deferred compensation under the Plan or Agreement and that is required to be postponed pursuant to Section 409A of the Code, following the a Participant's Termination of Employment shall be delayed for six months if a Participant is deemed to be a "specified employee" as defined in Section 409A(a)(2)(i)(B) of the Code; provided that, if the Participant dies during the postponement period prior to the payment of the postponed amount, the amounts withheld on account of Section 409A shall be paid to the executor or administrator of the decedent's estate within 60 days following the date of his death. A "Specified Employee" means any Participant who is a "key employee" (as defined in Code Section 416(i) without regard to paragraph (5) thereof), as

11.03 determined by AT&T in accordance with its uniform policy with respect to all arrangements subject to Code Section 409A, based upon the twelve (12) month period ending on each December 31st (such twelve (12) month period is referred to below as the "identification period"). All Participants who are determined to be key employees under Code Section 416(i) (without regard to paragraph (5) thereof) during the identification period shall be treated as Specified Employees for purposes of the Plan during the twelve (12) month period that begins on the first day of the 4th month following the close of such identification period.

Article 12. Withholding.

12.01 Tax Withholding . Unless otherwise provided by the Committee, the Company shall deduct or withhold an amount sufficient to satisfy Federal, state, and local taxes (including but not limited to the Participant's employment tax obligations) required by law to be withheld with respect to any taxable event arising or as a result of this Plan ("Withholding Taxes").

12.02 Share Withholding .

(a) Unless otherwise provided by the Committee, upon the exercise of Options, the lapse of restrictions on Restricted Stock, the distribution of Performance Shares in the form of Stock, or any other taxable event hereunder involving the transfer of Stock to a Participant, the Company shall withhold Stock equal in value to the Withholding Taxes applicable to such transaction using the method used to value the Stock for tax purposes.

(b) Any fractional Share of Stock payable to a Participant shall be withheld as additional Federal withholding, or, at the option of the Company, paid in cash to the Participant.

(c) Unless otherwise determined by the Committee, when the method of payment for the Exercise Price is from the sale through an agent appointed by the Company of the Stock acquired through the Option exercise, then the tax withholding shall be satisfied out of the proceeds. For administrative purposes in determining the amount of taxes due, the sale price of such Stock shall be deemed to be the Fair Market Value of the Stock.

(d) If permitted by the Committee, prior to the end of any Performance Period a Participant may elect to have a greater amount of Stock withheld from the distribution of Performance Shares to pay withholding taxes; provided, however, the Committee may prohibit or limit any individual election or all such elections at any time.

(e) Alternatively, or in combination with the foregoing, the Committee may require Withholding Taxes to be paid in cash by the Participant or by the sale of a portion of the Stock being distributed in connection with an Award, or by a combination thereof.

Article 13. Successors.

13.01 All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

Article 14. Legal Construction.

14.01 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

14.02 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

14.03 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

14.04 Errors. At any time AT&T may correct any error made under the Plan without prejudice to AT&T. Such corrections may include, among other things, changing or revoking an issuance of an Award.

14.05 Elections and Notices.

(a) Notwithstanding anything to the contrary contained in this Plan, all elections and notices of every kind shall be made on forms prepared by AT&T or the General Counsel, Secretary or Assistant Secretary, or their respective delegates or shall be made in such other manner as permitted or required by AT&T or the General Counsel, Secretary or Assistant Secretary, or their respective delegates, including but not limited to elections or notices through electronic means, over the Internet or otherwise. An election shall be deemed made when received by AT&T (or its designated agent, but only in cases where the designated agent has been appointed for the purpose of receiving such election), which may waive any defects in form. AT&T may limit the time an election may be made in advance of any deadline.

(b) Where any notice or filing required or permitted to be given to AT&T under the Plan, it shall be delivered to the principal office of AT&T, directed to the attention of the Senior Executive Vice President-Human Resources of AT&T or his or her successor. Such notice shall be deemed given on the date of delivery.

(c) Notice to the Participant shall be deemed given when mailed (or sent by telecopy) to the Participant's work or home address as shown on the records of AT&T or, at the option of AT&T, to the Participant's e-mail address as shown on the records of AT&T.

(d) It is the Participant's responsibility to ensure that the Participant's addresses are kept up to date on the records of AT&T. In the case of notices affecting multiple Participants, the notices may be given by general distribution at the Participants' work locations.

14.06 Governing Law. To the extent not preempted by Federal law, the Plan, and all awards and agreements hereunder, and any and all disputes in connection therewith, shall be governed by and construed in accordance with the substantive laws of the State of Texas, without regard to conflict or choice of law principles which might otherwise refer the construction, interpretation or enforceability of this Plan to the substantive law of another jurisdiction.

14.07 Venue. Because awards under the Plan are granted in Texas, records relating to the Plan and awards thereunder are located in Texas, and the Plan and awards thereunder are administered in Texas, except as otherwise agreed by the Participant and the Company in a Mandatory Arbitration Agreement, the Company and the Participant to whom an award under this Plan is granted, for themselves and their successors and assigns, irrevocably submit to the exclusive and sole jurisdiction and venue of the state or federal courts of Texas with respect to any and all disputes arising out of or relating to this Plan, the subject matter of this Plan or any awards under this Plan, including but not limited to any disputes arising out of or relating to the interpretation and enforceability of any awards or the terms and conditions of this Plan. To achieve certainty regarding the appropriate forum in which to prosecute and defend actions arising out of or relating to this Plan, and to ensure consistency in application and interpretation of the Governing Law to the Plan, except as otherwise agreed by the Participant and the Company in a Mandatory Arbitration Agreement, the parties agree that:

(a) sole and exclusive appropriate venue for any such action shall be an appropriate federal or state court in Dallas County, Texas, and no other,

(b) all claims with respect to any such action shall be heard and determined exclusively in such Texas court, and no other,

(c) such Texas court shall have sole and exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating hereto, and

(d) that the parties waive any and all objections and defenses to bringing any such action before such Texas court, including but not limited to those relating to lack of personal jurisdiction, improper venue or *forum non conveniens* .

14.08 409A Compliance . Awards under the Plan may be structured to be exempt from or be subject to Section 409A of the Code. To the extent that Awards granted under the Plan are subject to Section 409A of the Code, the Plan will be construed and administered in a manner that enables the Plan and such Awards to comply with the provisions of Section 409A of the Code.

AT&T INC.

HUMAN RESOURCES COMMITTEE

APPROVED RESOLUTION, September 28, 2017

Whereas, AT&T Inc. ("AT&T Inc." or the "Company") has embarked on an operational reorganization that will allow it to compete more effectively across a broad range of communications and entertainment businesses; and

Whereas, it is critical to the Company that **John Donovan** , Chief Executive Officer, AT&T Communications, LLC, be retained through December 30, 2020;

Now, therefore, be it:

RESOLVED, that the provisions of the 2011 Incentive Plan, the 2016 Incentive Plan and of any successor plan relating to the automatic proration of performance shares upon Termination of Employment, as that term is defined in the 2016 Incentive Plan, shall not apply under the following circumstances:

1. The proration shall not apply to the performance shares granted after the date of this resolution to Mr. Donovan if he remains employed through December 30, 2020;

2. In addition, the existing and future performance shares granted to Donovan shall not be prorated:

(a) if Mr. Donovan reports to an officer or employee of the Company or any of its affiliates other than the Chief Executive Officer of AT&T Inc.; or

(b) if the Company creates a higher-level position (e.g., Vice Chairman or Chief Operating Officer of AT&T Inc.) and Mr. Donovan is not placed in that role or an equivalent role; and

RESOLVED FURTHER, that the proper officers of AT&T Inc. are authorized to do or cause to be done any and all such acts and things, and to execute and deliver any and all documents and papers that they may deem necessary, proper or advisable to carry out the foregoing resolutions.

Exhibit 10-b(ii)

AT&T INC.

HUMAN RESOURCES COMMITTEE

APPROVED RESOLUTION, September 28, 2017

Whereas, AT&T Inc. ("AT&T Inc." or the "Company") has embarked on an operational reorganization that will allow it to compete more effectively across a broad range of communications and entertainment businesses; and

Whereas, it is critical to the Company that **John Stankey** , Senior Executive Vice President-AT&T/Time Warner Merger Integration Planning, AT&T Services, Inc., be retained through December 30, 2020;

Now, therefore, be it:

RESOLVED, that the provisions of the 2011 Incentive Plan, the 2016 Incentive Plan and of any successor plan relating to the automatic proration of performance shares upon Termination of Employment, as that term is defined in the 2016 Incentive Plan, shall not apply under the following circumstances:

1. The proration shall not apply to the performance shares granted after the date of this resolution to Mr. Stankey if he remains employed through December 30, 2020;

2. In addition, the existing and future performance shares granted to Stankey shall not be prorated:

   (a) if Mr. Stankey reports to an officer or employee of the Company or any of its affiliates other than the Chief Executive Officer of AT&T Inc.; or

   (b) if the Company creates a higher-level position (e.g., Vice Chairman or Chief Operating Officer of AT&T Inc.) and Mr. Stankey is not placed in that role or an equivalent role; and

RESOLVED FURTHER, that the proper officers of AT&T Inc. are authorized to do or cause to be done any and all such acts and things, and to execute and deliver any and all documents and papers that they may deem necessary, proper or advisable to carry out the foregoing resolutions.

Exhibit 10-b(iii)

AT&T INC.

HUMAN RESOURCES COMMITTEE

APPROVED RESOLUTION, September 28, 2017

Whereas, AT&T Inc. ("AT&T Inc." or the "Company") has embarked on an operational reorganization that will allow it to compete more effectively across a broad range of communications and entertainment businesses; and

Whereas, it is critical to the Company that **John Stephens** , Senior Executive Vice President and Chief Financial Officer, AT&T Inc., be retained through December 30, 2020;

Now, therefore, be it:

RESOLVED, that the provisions of the 2011 Incentive Plan, the 2016 Incentive Plan and of any successor plan relating to the automatic proration of performance shares upon Termination of Employment, as that term is defined in the 2016 Incentive Plan, shall not apply under the following circumstances:

1. The proration shall not apply to the performance shares granted after the date of this resolution to Mr. Stephens if he remains employed through December 30, 2020;

2. In addition, the existing and future performance shares granted to Stephens shall not be prorated:

(a) if Mr. Stephens reports to an officer or employee of the Company or any of its affiliates other than the Chief Executive Officer of AT&T Inc.; or

(b) if the Company creates a higher-level position (e.g., Vice Chairman or Chief Operating Officer of AT&T Inc.) and Mr. Stephens is not placed in that role or an equivalent role; and

RESOLVED FURTHER, that the proper officers of AT&T Inc. are authorized to do or cause to be done any and all such acts and things, and to execute and deliver any and all documents and papers that they may deem necessary, proper or advisable to carry out the foregoing resolutions.

AT&T INC.
SHORT TERM INCENTIVE PLAN

The Short Term Incentive Plan ("Plan") is established to provide Executive Officers, Officers, Senior Managers and, where appropriate, other Employees, with short-term incentive compensation based upon the achievement of performance goals.

1. Definitions .

For purposes of this Plan, the following underlined words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

Award shall mean an award under this Plan, which shall consist of the Target Award and related payout schedule, together with the associated Performance Goals, Performance Period, and any other terms and conditions, as well as the Key Contributor Award.

AT&T or the Company shall mean AT&T Inc., a Delaware Corporation.

Disability shall mean absence of an Employee from work under the relevant Employer disability plan.

Employee shall mean any person designated as an employee in the payroll and personnel records of an Employer and paid on an Employer's payroll system.

Executive Officer shall mean any Officer who is identified by AT&T as an executive officer under Rule 3b-7 of the Securities Exchange Act of 1934.

Employer shall mean AT&T or any of its Subsidiaries.

Leave of Absence shall mean an Employee's absence from employment with an Employer on a formally granted leave of absence (i.e., the absence is with formal permission in order to prevent a break in the continuity of term of employment, which permission is granted (and not revoked) in conformity with the rules of the applicable Employer, as adopted from time to time).

Officer shall mean an Employee who is designated as an officer for compensation purposes on the records of AT&T.

Performance Goals shall mean any financial, service, or other goals applicable to the payment of Target Awards under this Plan.

Performance Period shall mean the time period over which Performance Goals are measured, but in no case shall a Performance Period exceed one (1) year.

Retire or Retirement shall mean the Termination of an Employee's employment with AT&T or any of its subsidiaries on or after attaining one of the following combinations of age and Term of Employment (as determined under the applicable Employer pension plan), as applicable:

Term of Employment	Age
10 years or more	65 or older
20 years or more	55 or older
25 years or more	50 or older
30 years or more	Any age

Notwithstanding the foregoing, "Retire" or "Retirement" for an Officer also refers to the Termination of Employment of an Officer, other than for cause, who has attained age 55 and has completed a 5 year Term of Employment, provided, however, that individuals who are designated as an Officer on or after October 1, 2015, must have completed a 10-year Term of Employment.

Senior Manager shall mean an Employee who is designated as a senior manager for compensation purposes on the records of AT&T.

SEVP-HR shall mean the AT&T's highest ranking Officer (below the Chief Executive Officer (CEO)) who is specifically responsible for human resources matters. Any authority granted to the SEVP-HR shall also be held by the CEO.

Subsidiary shall mean any U.S. corporation in which AT&T owns, directly or indirectly, more than fifty percent (50%) of the total combined voting power of all classes of stock, or any other entity (including, but not limited to, partnerships and joint ventures) in which AT&T owns, directly or indirectly, more than fifty percent (50%) of the combined equity thereof.

Target Award shall mean a specific dollar value or percentage of salary that may be paid based on the 100% achievement of the related Performance Goals.

Termination of Employment, Termination , or a similar reference shall mean the event where the Employee ceases to be an Employee and is no longer employed by an Employer.

2. **Administration.**

The Human Resources Committee (the "Committee") shall have complete authority over the administration of the Plan and the authority to construe, interpret, and implement the Plan or any Award thereunder, and make factual determinations under the Plan. The CEO and the SEVP-HR, in their sole respective discretions, shall have complete authority to construe, interpret, and implement the provisions of the Plan or any Award solely with respect to Plan or Award matters delegated to them or to delegate all or part of their authority. All actions and determinations by the Committee, the CEO, the SEVP-HR (each an "Administrator"), or their respective delegates, authorized by this Plan shall be final and binding and shall be afforded the greatest legal deference on review.

3. Establishing, Modifying, or Terminating Awards.

Awards under this Plan shall be established, modified, or terminated by the Committee, the CEO, or the SEVP-HR, as follows:

A. The Committee may establish, modify or terminate an Award for any Employee.
B. Except as prohibited by the Committee, the CEO may interpret, establish, modify or terminate an Award for any Officer (other than an Executive Officer) or lower level employee, even if the Award was originally granted by the Committee.
C. Except as prohibited by the Committee or the CEO, the SEVP-HR may interpret, establish, modify or terminate an Award for any Employee that is not an Officer, even if the Award was originally granted by the Committee or the CEO.
D. Except as prohibited by the Committee or the Plan, in the event of a promotion, change in responsibility, or new hire during the Performance Period, the CEO or SEVP-HR may establish or modify an Award for an Employee.

4. Award Terms.

An authorized Administrator establishing an Award, shall determine the terms and conditions of the Award, including any Performance Goals and associated performance exclusions that would be used to determine, in whole or in part, the amount of any payout of an Award. The terms of an Award, including any Performance Goals and associated performance exclusions, may be modified, reduced or cancelled at any time before the Award is finally distributed.

5. Final Award Determination.

Actual performance shall be compared to any predetermined Performance Goals to determine payout of Awards. An authorized Administrator shall then determine the percentage of the Target Award (using the related payout schedule) to be distributed to Employees for the relevant Performance Period as it may determine in its sole and complete discretion.

The final Award to be distributed to an Employee (or former Employee) may be more or less in an authorized Administrator's discretion (including no award) than the percentage of the Target Award determined for such Employee; for example, an authorized Administrator may approve a final Award greater or less than the (prorated, if applicable) performance-adjusted Target Award.

Determination and distribution of all Awards is subject to approval by an authorized Administrator, except as provided herein. All Awards are payable in cash and will be paid within two and one-half (2 ½) months of the end of the Performance Period and in all cases no later than March 15 of the year following the year in which a Performance Period ends.

For purposes of other plans, the portion of an Award payout that is earned while an Employee is a Senior Manager or below shall be classified as an Annual Bonus; and the portion earned while an Employee is an Officer shall be classified as a Short Term

Incentive Award. In each case, unless otherwise provided by an authorized Administrator, the Key Contributor Award, if any, paid with respect to a Performance Period shall be classified as either an Annual Bonus or a Short Term Incentive Award, based upon the recipient's management level at the end of the Performance Period.

6. Key Contributor Awards.

An authorized Administrator may provide an additional payment to recipients of Target Awards to recognize and reward outstanding or exceptional achievement. Such a payment shall be called a "Key Contributor Award" or "KCA." The number of Employees within an organization that may receive a KCA may be limited by an authorized Administrator.

7. Award Adjustments.

Unless otherwise provided by an authorized Administrator, an Employee who experiences one of the following events during the Performance Period shall have his/her Award under this Plan automatically adjusted as follows:

When an Award is established after the beginning of the Performance Period	Award shall be prorated based on the time period of active service under the applicable Award terms
Modification of an Award during the Performance Period	Award shall be prorated based on the time period of active service under each applicable set of Award terms
Leave of Absence during the Performance Period	Award shall be prorated to exclude the time period of the leave
Involuntary Termination during the Performance Period	Award shall be prorated to the date of Termination of Employment
Voluntary Termination prior to the end of the performance period (except as provided below)	No Award
Retirement or Termination of Employment due to death or Disability during the performance period	Award shall be prorated to the date of Termination of Employment
Dismissal for cause, even if Retirement eligible, during or after a Performance Period, but prior to Award payout	Award shall be forfeited upon Termination of Employment

The receipt of short-term Disability benefits during the Performance Period shall have no effect on an Award.

8. Other Conditions .

A. No person shall have any claim to be granted an Award under the Plan and there is no obligation for uniformity of treatment of Employees under the Plan. Awards under the Plan may not be assigned or alienated.

B. Neither the Plan nor any action taken hereunder shall be construed as giving to any Employee the right to be retained in the employ of AT&T or any subsidiary thereof.

C. Awards shall be subject to applicable withholding taxes as required by law.

D. The Plan shall be governed by the laws of the State of Texas and applicable Federal law.

E. The AT&T Rules for Employee Beneficiary Designations shall apply to Awards under this Plan.

Exhibit 10-j

AT&T INC.

STOCK PURCHASE AND DEFERRAL PLAN

Adopted November 19, 2004
Amended December 15, 2017

Article 1 - Statement of Purpose

The purpose of the Stock Purchase and Deferral Plan ("Plan") is to increase stock ownership by, and to provide savings opportunities to, a select group of management employees of AT&T Inc. ("AT&T") and its Subsidiaries.

Article 2 - Definitions

For the purpose of this Plan, the following words and phrases shall have the meanings indicated, unless the context indicates otherwise:

Annual Bonus . The award designated the "Annual Bonus" by AT&T (including but not limited to an award that may be paid in more frequent installments than annually), together with any individual discretionary award made in connection therewith, or comparable awards, if any, determined by AT&T to be used in lieu of these awards.

Base Compensation. The following types of cash-based compensation paid by an Employer (but not including payments made by a non-Employer, such as state disability payments), before reduction due to any contribution pursuant to this Plan or reduction pursuant to any deferral plan of an Employer, including but not limited to a plan that includes a qualified cash or deferral arrangement under Section 401(k) of the Code:

(a) base salary;

(b) lump sum payments in lieu of a base salary increase; and

(c) Annual Bonus.

Payments by an Employer under a disability plan made in lieu of any compensation described above shall be deemed to be a part of the respective form of compensation it replaces for purposes of this definition. Base Compensation does not include zone allowances or any other geographical differential and shall not include payments made in lieu of unused vacation or other paid days off, and such payments shall not be contributed to this Plan.

Determinations by AT&T (the Committee with respect to Officer Level Employees) of the items that make up Base Compensation shall be final. The Committee may, from time to time, add or subtract types of compensation to or from the definition of "Base Compensation" provided, however, any such addition or subtraction shall be effective only with respect to the next period in which a Participant may make an election to establish a Share Deferral Account. Base Compensation that was payable in a prior Plan Year but paid in a later Plan Year shall not be used to determine Employee Contributions or Matching Contributions in such later Plan Year.

Business Day. Any day during regular business hours that AT&T is open for business.

Change in Control. With respect to AT&T's direct and indirect ownership of an Employer, a "Change in the effective control of a Corporation," as defined in Treasury Regulation Section 1.409A-3(i)(5)(vi)(A)(1), regardless of whether the Employer is a corporation or non corporate entity as permitted by the regulation, and using "50 percent" in lieu of "30 percent" in such regulation. A Change in Control will not apply to AT&T itself.

Chief Executive Officer. The Chief Executive Officer of AT&T Inc.

Code. References to the Code shall be to provisions of the Internal Revenue Code of 1986, as amended, including regulations promulgated thereunder and successor provisions. Similarly, references to regulations shall include amendments and successor provisions.

Committee. The Human Resources Committee of the Board of Directors of AT&T Inc.

Disability. Absence of an Employee from work with an Employer under the relevant Employer's disability plan.

Eligible Employee. An Employee who:

(a) is a full or part time, salaried Employee of AT&T or an Employer in which AT&T has a direct or indirect 100% ownership interest and who is on active duty or Leave of Absence (but only while such Employee is deemed by the Employer to be an Employee of such Employer);

(b) is, as determined by AT&T, a member of Employer's "select group of management or highly compensated employees" within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and regulations thereunder ("ERISA"), which is deemed to include each Officer Level Employee; and

(c) has an employment status which has been approved by AT&T to be eligible to participate in this Plan or is an Officer Level Employee.

Notwithstanding the foregoing, AT&T (the Committee with respect to Officer Level Employees) may, from time to time, exclude any Employee or group of Employees from being deemed an "Eligible Employee" under this Plan.

In the event a court or other governmental authority determines that an individual was improperly excluded from the class of persons who would be permitted to make Employee Contributions during a particular time for any reason, that individual shall not be permitted to make such contributions for purposes of the Plan for the period of time prior to such determination.

Employee. Any person employed by an Employer and paid on an Employer's payroll system, excluding persons hired for a fixed maximum term and excluding persons who are neither citizens nor permanent residents of the United States, all as determined by AT&T. For purposes of this Plan, a person on Leave of Absence who otherwise would be an Employee shall be deemed to be an Employee.

Employee Contributions. Amounts credited to a Share Deferral Account pursuant to Section 4.1 (Election to Make Contributions) of the Plan.

Employer. AT&T Inc. or any of its Subsidiaries.

Exercise Price. The price per share of Stock purchasable under an Option.

Fair Market Value or FMV. In valuing Stock or any other item subject to valuation under this Plan, the Committee may use such index or measurement as the Committee may reasonably determine from time to time, and such index or measurement shall be the FMV of such Stock or other item, provided that for purposes of determining the Exercise Price of Stock Options, the Committee shall use a value consistent with the requirements of Section 409A. In the absence of such action by the Committee, FMV means, with respect to Stock, the closing price on the New York Stock Exchange ("NYSE") of the Stock on the relevant date, or if on such date the Stock is not traded on the NYSE, then the closing price on the immediately preceding date such Stock is so traded.

Leave of Absence. Where a person is absent from employment with an Employer on a leave of absence, military leave, sick leave, or Disability where the leave is given in order to prevent a break in the continuity of term of employment, and permission for such leave is granted (and not revoked) in conformity with the rules of the Employer that employs the individual, as adopted from time to time, and the Employee is reasonably expected to return to service. Except as set forth below, the leave shall not exceed six (6) months for purposes of this Plan, and the Employee shall Terminate Employment upon termination of such leave if the Employee does not return to work prior to or upon expiration of such six (6) month period, unless the individual retains a right to reemployment under law or by contract. A twenty-nine (29) month limitation shall apply in lieu of such six (6) month limitation if the leave is due to the Employee being "disabled" (within the meaning of Treasury Regulation §1.409A-3(i)(4)). A Leave of Absence shall not commence or shall be deemed to cease under the Plan where the Employee has incurred a Termination of Employment.

Officer Level Employee. Any executive officer of AT&T, as that term is used under the Securities Exchange Act of 1934, as amended, and any Employee that is an "officer level" Employee for compensation purposes as shown on the records of AT&T.

Options or Stock Options. Options to purchase Stock issued pursuant to this Plan.

Participant. An Employee or former Employee who participates in this Plan.

Plan Year. Each of the following shall be a Plan Year: the period January 1, 2005, through January 15, 2006; the period January 16, 2006, through December 31, 2006; and, for all later Plan Years, it is defined as the period from January 1 through December 31.

Retirement or Retire. Termination of Employment on or after the earlier of the following dates, unless otherwise provided by the Committee: (a) for Officer Level Employees, the date the Participant is at least age 55 and has five (5) years of Net Credited Service; or (b) the date the Participant has attained one of the following combinations of age and Net Credited Service:

Net Credited Servic	Age
10 years or more	65 or older
20 years or more	55 or older
25 years or more	50 or older
30 years or more	Any age

For purposes of this Plan only, Net Credited Service shall be calculated in the same manner as "Pension Eligibility Service" under the AT&T Pension Benefit Plan – Nonbargained Program ("Pension Plan"), as amended from time to time, except that service with an Employer shall be counted as though the Employer were a "Participating Company" under the Pension Plan and the Employee was a participant in the Pension Plan.

Senior Manager. Any Employee who is a "senior manager" for compensation purposes as shown on the records of AT&T.

Shares or Share Units. An accounting entry representing the right to receive an equivalent number of shares of Stock.

Share Deferral Account or **Account.** The Account or Accounts established annually by an election by a Participant to make Employee Contributions to the Plan, with each Account relating to a Plan Year. For each Plan Year after 2008, there shall be (1) a separate Share Deferral Account for Share Units purchased with Employee Contributions of Base Compensation (excluding Annual Bonus) and related Matching Share Units and (2) a separate Share Deferral Account for Share Units purchased with Employee Contributions of Short Term Incentive Award and/or Annual Bonus and any related Matching Share Units. Earnings on Share Units and Matching Share Units shall accrue to the respective Share Deferral Accounts where they are earned.

Short Term Incentive Award. A cash award paid by an Employer (and not by a non-Employer, such as state disability payments) under the Short Term Incentive Plan or any successor plan, together with any individual discretionary award made in connection therewith; an award under a similar plan intended by the Committee to be in lieu of an award under such Short Term Incentive Plan, including, but not limited to, Performance Units granted under the 2006 Incentive Plan or any successor plan. It shall also include any other award that the Committee designates as a Short Term Incentive Award specifically for purposes of this Plan (regardless of the purpose of the award) provided the deferral election is made in accordance with Section 409A.

Specified Employee . Any Participant who is a "Key Employee" (as defined in Code Section 416(i) without regard to paragraph (5) thereof), as determined by AT&T in accordance with its uniform policy with respect to all arrangements subject to Code Section 409A, based upon the 12-month period ending on each December 31st (such 12-month period is referred to below as the "identification period"). All Participants who are determined to be Key Employees under Code Section 416(i) (without regard to paragraph (5) thereof) during the identification period shall be treated as Key Employees for purposes of the Plan during the 12-month period that begins on the first day of the 4th month following the close of such identification period.

Stock. The common stock of AT&T Inc.

Subsidiary. Any corporation, partnership, venture or other entity or business with which AT&T would be considered a single employer under Sections 414(a) and (c) of the Code, using 50% as the ownership threshold as provided under Section 409A of the Code.

Termination of Employment. References herein to "Termination of Employment," "Terminate Employment" or a similar reference, shall mean the event where the Employee has a "separation from service," as defined under Section 409A, with all Employers. For purposes of this Plan, a Termination of Employment with respect to an Employer shall be deemed to also occur when such Employer incurs a Change in Control.

Article 3 - Administration of the Plan

3.1 The Committee .

Except as delegated by this Plan or by the Committee, the Committee shall be the administrator of the Plan and will administer the Plan, interpret, construe and apply its provisions and determine all questions of administration, interpretation and application of the Plan, including, without limitation, questions and determinations of eligibility, entitlement to benefits and payment of benefits, all in its sole and absolute discretion. The Committee may further establish, adopt or revise such rules and regulations and such additional terms and conditions regarding participation in the Plan as it may deem necessary or advisable for the administration of the Plan. References in this Plan to determinations or other actions by AT&T, herein, shall mean actions authorized by the Committee, the Chief Executive Officer, the Senior Executive Vice President of AT&T in charge of Human Resources, or their respective successors or duly authorized delegates, in each case in the discretion of such person. All decisions by the Committee, its delegate or AT&T, as applicable, shall be final and binding.

3.2 Authorized Shares of Stock.

(a) Except as provided below, the number of shares of Stock which may be distributed pursuant to the Plan, exclusive of Article 8 - Options, is 76,000,000. The number of shares of Stock which may be issued pursuant to the exercise of Stock Options is 34,000,000 (together with an equal number of Stock Options). In determining the number of authorized shares remaining available for issuance, shares withheld for taxes in a distribution shall not be considered issued and shall not reduce the number of authorized shares. When an Option is exercised, the authorized shares of Stock that may be issued pursuant to an Option exercise shall be reduced by the number of Options so exercised. To the extent an Option issued under this Plan is canceled, terminates, expires, or lapses for any reason, such Option shall again be available for issuance under the Plan. Conversions of Stock awards into Share Units and their eventual distribution (excluding the effects of any dividends on such Share Units) shall count only against the limits of the plans from which they originated and shall not be applied against the limits in this Plan. To the extent Share Units are credited through deferrals of Stock or Employee Contributions where the distribution of which would be deductible by AT&T under Section 162(m) of the Code without regard to the size of the distribution, and such deductible Share Units are available for distribution, such Share Units shall be distributed first.

(b) In the event the Committee determines that continuing the issuance of Share Units under the Plan or Stock Options under the Plan may cause the number of shares of Stock that are to be distributed under this Plan or the number of Stock Options (as determined pursuant to subsection (a), above) to exceed the number of authorized shares of Stock, then in lieu of distributing Stock, the Committee may provide after such determination and only with respect to Share Units that have not theretofore been credited to a Share Deferral Account, that such Share Units may be settled in cash equal to the value of the Stock that would otherwise be distributed based on the FMV of the Stock on the date of the distribution of such Share Unit. The Committee may also provide after such determination and only with respect to Stock Options that have not theretofore been issued that such Stock Options may only be settled on a Net-Settled basis in cash equal to the value of the Stock that would otherwise be distributed based on the FMV of the Stock on the day of exercise.

(c) In the event of a merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, stock split, share combination, or other change in the corporate structure of AT&T affecting the shares of Stock (including a conversion of Stock into cash or other property), such adjustment shall be made to the number and class of the shares of Stock which may be delivered under the Plan (including but not limited to individual limits), and in the number and class of and/or price of shares of Stock subject to outstanding Options granted under the Plan, and/or in the number of outstanding Options and Share Units, or such other adjustment determined by the Committee, in each case as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights.

3.3 Claims and Appeals .

(a) Claims. A person who believes that he or she is being denied a benefit to which he or she is entitled under this Plan (hereinafter referred to as a "Claimant") may file a written request for such benefit with the Executive Compensation Administration Department, setting forth his or her claim. The request must be addressed to the AT&T Executive Compensation Administration Department at its then principal place of business.

(b) Claim Decision. Upon receipt of a claim, the AT&T Executive Compensation Administration Department shall review the claim and provide the Claimant with a written notice of its decision within a reasonable period of time, not to exceed ninety (90) days, after the claim is received. If the AT&T Executive Compensation Administration Department determines that special circumstances require an extension of time beyond the initial ninety (90)- day claim review period, the AT&T Executive Compensation Administration Department shall notify the Claimant in writing within the initial ninety (90)-day period and explain the special circumstances that require the extension and state the date by which the AT&T Executive Compensation Administration Department expects to render its decision on the claim. If this notice is provided, the AT&T Executive Compensation Administration Department may take up to an additional ninety (90) days (for a total of one hundred eighty (180) days after receipt of the claim) to render its decision on the claim.

If the claim is denied by the AT&T Executive Compensation Administration Department, in whole or in part, the AT&T Executive Compensation Administration Department shall provide a written decision using language calculated to be understood by the Claimant and setting forth: (i) the specific reason or reasons for such denial; (ii) specific references to pertinent provisions of this Plan on which such denial is based; (iii) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or such information is necessary; (iv) a description of the Plan's procedures for review of denied claims and the steps to be taken if the Claimant wishes to submit the claim for review; (v) the time limits for requesting a review of a denied claim under this section and for conducting the review under this section; and (vi) a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA if the claim is denied following review under this section .

(c) Request for Review. Within sixty (60) days after the receipt by the Claimant of the written decision on the claim provided for in this section, the Claimant may request in writing that the Committee review the determination of the AT&T Executive Compensation Administration Department. Such request must be addressed to the Committee at the address for giving notice in this Plan. To assist the Claimant in deciding whether to request a review of a denied claim or in preparing a request for review of a denied claim, a Claimant shall be provided, upon written request to the Committee and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claim. The Claimant or his or her duly authorized representative may, but need not, submit a statement of the issues and comments in writing, as well as other documents, records or other information relating to the claim for consideration by the Committee. If the Claimant does not request a review by the Committee of the AT&T Executive Compensation Administration Department's decision within such sixty (60)-day period, the Claimant shall be barred and stopped from challenging the determination of the AT&T Executive Compensation Administration Department.

(d) Review of Decision. Within sixty (60) days after the Committee's receipt of a request for review, the Administrator will review the decision of the AT&T Executive Compensation Administration Department. If the Committee determines that special circumstances require an extension of time beyond the initial sixty (60)-day review period, the Committee shall notify the Claimant in writing within the initial sixty (60)-day period and explain the special circumstances that require the extension and state the date by which the Committee expects to render its decision on the review of the claim. If this notice is provided, the Committee may take up to an additional sixty (60) days (for a total of one hundred twenty (120) days after receipt of the request for review) to render its decision on the review of the claim.

During its review of the claim, the Committee shall:

(1) Take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial review of the claim conducted pursuant to this section;

(2) Follow reasonable procedures to verify that its benefit determination is made in accordance with the applicable Plan documents; and

(3) Follow reasonable procedures to ensure that the applicable Plan provisions are applied to the Participant to whom the claim relates in a manner consistent with how such provisions have been applied to other similarly-situated Participants.

After considering all materials presented by the Claimant, the Committee will render a decision, written in a manner designed to be understood by the Claimant. If the Committee denies the claim on review, the written decision will include (i) the specific reasons for the decision; (ii) specific references to the pertinent provisions of this Plan on which the decision is based; (iii) a statement that the Claimant is entitled to receive, upon request to the Committee and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim; and (iv) a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA.

The Committee shall serve as the final review committee under the Plan and shall have sole and complete discretionary authority to administer, interpret, construe and apply the Plan provisions, and determine all questions of administration, interpretation, construction, and application of the Plan, including questions and determinations of eligibility, entitlement to benefits and the type, form and amount of any payment of benefits, all in its sole and absolute discretion. The Committee shall further have the authority to determine all relevant facts and related issues, and all documents, records and other information relevant to a claim conclusively for all parties, and in accordance with the terms of the documents or instruments governing the Plan. Decisions by the Committee shall be conclusive and binding on all parties and not subject to further review.

In any case, a Participant or Beneficiary may have further rights under ERISA. The Plan provisions require that Participants or Beneficiary pursue all claim and appeal rights described in this section before they seek any other legal recourse regarding claims for benefits.

Article 4 - Contributions

4.1 Election to Make Contributions.

(a) The Committee shall establish dates and other conditions for participation in the Plan and making contributions as it deems appropriate. Except as otherwise provided by the Committee, each year an Employee who is an Eligible Employee as of September 30 may thereafter make an election on or prior to the last Business Day of the immediately following November (such election shall be cancelled if the Employee is not an Eligible Employee on the last day such an election may be made) to contribute on a pre-tax basis, through payroll deductions, any combination of the following:

(1) From 6% to 30% (in whole percentage increments) of the Participant's monthly Base Compensation, other than Annual Bonus, during the calendar year (the Plan Year for such contributions) following the calendar year of such election. The Employee Contributions shall be used to acquire Share Units to be credited to the Share Deferral Account for that Plan Year.

(2) Up to 95% (in whole percentage increments or limited to the target amount) of a Short Term Incentive Award, or from 6% to 30% (in whole percentage increments) of Annual Bonus, in each case such contributions shall be made during the second calendar year (which is the Plan Year for such contributions) following the year of such election, except that in 2008 a separate election may be made with respect to contributions to be made in 2009. An Employee may make such an election with respect to the type of Award (Short Term Incentive Award or Annual Bonus) that the Employee is under as of the time

the Employee's eligibility to make such election is determined. If because of a promotion or otherwise, the Employee receives a different type of Award instead of, or in partial or full replacement for, the type of Award subject to the Employee's election for the relevant Plan Year, the election will apply to the other Award as well, including but not limited to any individual discretionary award related thereto.

(b) The Committee may permit an Eligible Employee to make an election to purchase Share Units under this Plan with compensation other than Base Compensation or Short Term Incentive Awards on such terms and conditions as such Committee may permit from time to time, provided that any such election is made in accordance with Section 409A of the Code. In no event shall an acquisition of Share Units pursuant to this paragraph (b) or pursuant to the conversion of a right to receive Stock into Share Units (such as through a distribution of Stock under the 2001 Incentive Plan) result in the crediting of an AT&T Matching Contribution or Options.

(c) Notwithstanding anything to the contrary in this Plan, no election shall be effective to the extent it would permit an Employee Contribution or distribution to be made that is not in compliance with Section 409A of the Code. To the extent such election related to Employee Contributions that complied with such statute and regulations thereunder, that portion of the election shall remain valid, except as otherwise provided under this Plan.

(d) To the extent permitted by Section 409A of the Code, AT&T may refuse or terminate, in whole or in part, any election to purchase Share Units in the Plan at any time; provided, however, that only the Committee may take such action with respect to persons who are Officer Level Employees.

(e) In the event the Participant takes a hardship withdrawal pursuant to Treasury Regulation §1.401(k)-1 from a benefit plan qualified under the Code and sponsored by an Employer, any election to make Employee Contributions by such Participant shall be cancelled on a prospective basis, and the Participant shall not be permitted to make a new election with respect to Employee Contributions that would be contributed during the then current and immediately following calendar year.

4.2 Purchase of Share Units.

(a) Employee Contributions (as well as any corresponding AT&T Matching Contributions) shall be made pursuant to a proper election, only during the Participant's lifetime; provided, however, with respect to Employee Contribution elections made prior to 2007, the Employee must remain an Eligible Employee while making any such contributions. In the event of a Change in Control of an Employer, subsequent compensation from the Employer may not be contributed to the Plan. The Employer may continue the then current elections of the participants under a subsequent plan in order to comply with applicable tax laws.

(b) The number of Share Units purchased by a Participant during a calendar month shall be found by dividing the Participant's Employee Contributions during the month by the FMV of a share of Stock on the last day of such month.

(c) A contribution to the Plan shall be made when the compensation – from which the contribution is to be deducted – is to be paid ("paid," as used in this Plan, includes amounts contributed to the Plan that would have been paid were it not for an election under this Plan), as determined by the relevant Employer. The Committee may modify or change this paragraph (c) from time to time.

4.3 Reinvestment of Dividends.

In the month containing a record date for a cash dividend on Stock, each Share Deferral Account shall be credited with that number of Share Units equal to the declared dividend per share of Stock, multiplied by the number of Share Units held in such Share Deferral Account as of such record date, and dividing the product by the FMV of a share of Stock on the last day of such month.

Article 5 - AT&T Matching Contributions

5.1 AT&T Match.

(a) Each month AT&T shall credit the Participant's relevant Share Deferral Account with the number of "Matching Share Units" found by taking eighty percent (80%) of the Participant's Employee Contributions from Base Compensation made to this Plan and to the Cash Deferral Plan during the month with respect to the first six percent (6%) of the Participant's monthly Match Eligible Compensation (as defined below) and dividing the resulting figure by the FMV of the Stock on the last day of such month (such resulting amount shall be the "Matching Contribution"). The monthly "Match Eligible Compensation" shall be the sum of:

(1) the monthly Employee Contributions from Base Compensation to this Plan and the Cash Deferral Plan (in the aggregate, "Deferred BC"), plus

(2) the amount of the Participant's monthly Base Compensation in excess of the Deferred BC ("Non-Deferred BC") but only to the extent such monthly Non-Deferred BC, when aggregated with the Participant's total Non-Deferred BC for prior months in such Plan Year, as determined by the relevant Employer, exceeds the limit in effect under Section 401(a)(17) of the Code applicable with respect to such Plan Year.

The foregoing formula shall apply regardless of whether or not the Participant makes contributions to a 401(k) plan.

A Participant may receive Matching Share Units in a Share Deferral Account for a particular form of compensation only if the Participant is then making contributions to the same Share Deferral Account; provided, however, this condition shall not apply for purposes of determining under Section 5.1(a)(2) whether the limit described therein has been reached.

As provided in the definition of Share Deferral Account, Matching Share Units shall be credited to the respective Share Deferral Account that is related to the same form of Employee Contributions (either (1) Base Compensation excluding Annual Bonus or (2) Annual Bonus).

(b) In the event the Participant is not eligible to earn pension accruals under a pension plan offered by AT&T or a Subsidiary and either (1) first becomes an Employee on or after January 1, 2015, or (2) the Participant Terminates Employment on or after January 1, 2015, and the Participant is subsequently rehired as an Employee, then the "eighty percent (80%)" reference in section 5.1(a) shall be replaced with "one hundred percent (100%)" for purposes of determining the number of Matching Share Units to which the Participant would be entitled pursuant to contribution elections made after such hiring or rehiring.

(c) In the sole discretion of the Committee, in the event the Committee reduces the number of Options that AT&T issues for each Share Unit purchased, the Committee may provide for the contribution of a Bonus Matching Contribution on such terms as the Committee determines. Such Bonus Matching Contribution may not exceed 20% of the Participant's Employee Contributions for the month. The Bonus Matching Contribution shall be subject to such terms and conditions as required by the Committee and, unless otherwise provided by the Committee, to the same distribution requirements as Matching Contributions. Pursuant to the foregoing authority and until otherwise provided by the Committee, effective for Share Accounts created pursuant to Employee Contribution elections where such elections are made after January 1, 2010, AT&T shall make Bonus Matching Contributions equal to 20% of the Participant's monthly Employee Contributions from each of Base Compensation and Short Term Incentive Award (not to exceed the target amount of such award, which limit shall be pro rated for any partial year award). Such Bonus Matching Contribution shall be used to purchase that number of Matching Share Units found by dividing the relevant Bonus Matching Contribution for the month by the FMV of the Stock on the last day of such month.

5.2 Distribution of Share Units Acquired with Matching Contributions .

A Participant's Matching Share Units shall be distributed in a lump sum, in accordance with the Plan's distribution provisions, in the earlier of: (a) the calendar year following the calendar year of the Termination of Employment of the Participant, or (b) the calendar year in which the Participant reaches age 55, in each case only with respect to Matching Share Units relating to Share Deferral Accounts for Plan Years before such distribution calendar year.

Matching Share Units acquired as part of a Share Deferral Account that commences in or after the calendar year the Employee reaches age 55 or after the calendar year in which the Employee Terminates Employment will be distributed in the same manner and time as other Share Units in such Share Deferral Account.

Notwithstanding anything to the contrary in this section, Matching Share Units acquired in 2008 and later shall be distributed at the same time as other Share Units (including those acquired with Employee Contributions) in the same Share Deferral Account.

Article 6 - Distributions

6.1 Distributions of Share Units.

(a) Initial Election with Respect to a Share Deferral Account. At the time the Participant makes an election to make Employee Contributions with respect to a Share Deferral Account, the Participant shall also elect the calendar year the Share Deferral Account shall be distributed, which may be from the first through fifth calendar years after the Plan Year the Account commenced (except as otherwise provided in this Plan with respect to Matching Share Units). For example, if an Account commenced in 2005, the Participant may elect to commence the distribution in any calendar year from and including 2006 to and including 2010. If no timely distribution election is made by the Participant, then the Participant will be deemed to have made an election to have the Share Deferral Account distributed in a single installment in the first calendar year after the calendar year the Account commenced.

(b) Election to Delay a Scheduled Distribution. A Participant may elect to defer a scheduled distribution of a Share Deferral Account for five (5) additional calendar years beyond that previously elected (except as otherwise provided in this Plan with respect to Matching Share Units). Unless otherwise provided by the Committee, the election to defer the distribution must be made on or after October 1, and on or before the last Business Day of the next following December, of the calendar year that is the second calendar year preceding the calendar year of the relevant scheduled distribution. To make this election, the Participant must be an Eligible Employee both on the September 30 immediately preceding such election and on the last day such an election may be made. For example, an election to defer a scheduled distribution in 2010 must be made during the period from October 1, 2008, through the last business day of December 2008, and the Participant must be an Eligible Employee both on September 30, 2008, and the last business day of December 2008. An election to defer the distribution of a Share Deferral Account may not be made in the same calendar year that the election to establish the Share Deferral Account is made. Notwithstanding anything to the contrary in this Plan, (1) an election to defer the distribution of a Share Deferral Account must be made at least 12 months prior to the date of the first scheduled payment under the prior distribution election and (2) the election shall not take effect until at least 12 months after the date on which the election is made.

(c) A Participant's Share Deferral Account shall be distributed to the Participant on March 10 (or as soon thereafter as administratively practicable as determined by AT&T) of the calendar year elected by the Participant for that Account. In the event the distribution is to be made to a "Specified Employee" as a result of the Participant's Termination of Employment (other than as a result of a Change in Control), the distribution shall not occur until the later of such March 10 or six (6) months after the Termination of Employment, except it shall be distributed upon the Participant's earlier death in accordance with this Plan.

6.2 Death of the Participant.

In the event of the death of a Participant, notwithstanding anything to the contrary in this Plan, all undistributed Share Deferral Accounts shall be distributed to the Participant's beneficiary in accordance with the AT&T Rules for Employee Beneficiary Designations, as the same may be amended from time to time, within the later of 90 days following such determination or the end of the calendar year in which determination was made.

6.3 Unforeseeable Emergency Distribution .

If a Participant experiences an "Unforeseeable Emergency," the Participant may submit a written petition to AT&T (the Committee in the case of Officer Level Employees), to receive a partial or full distribution of his Share Deferral Account(s). In the event that AT&T (the Committee in the case of Officer Level Employees), upon review of the written petition of the Participant, determines in its sole discretion that the Participant has suffered an "Unforeseeable Emergency," AT&T shall make a distribution to the Participant from the Participant's Share Deferral Accounts (other than Matching Share Units), on a pro-rata basis, within the later of 90 days following such determination or the end of the calendar year in which determination was made, subject to the following:

(a) "Unforeseeable Emergency" shall mean a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's legal spouse, the Participant's beneficiary, or the Participant's dependent (as defined in Code Section 152, without regard to Code Section 152(b)(1), (b)(2), and (d)(1)(B)); loss of the Participant's property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee. Whether a Participant is faced with an Unforeseeable Emergency permitting a distribution is to be determined based on the relevant facts and circumstances of each case, but, in any case, a distribution on account of Unforeseeable Emergency shall not be made to the extent that such emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets, to the extent the liquidation of such assets would not cause severe financial hardship, or by cessation of deferrals under the Plan.

(b) The amount of a distribution to be made because of an Unforeseeable Emergency shall not exceed the lesser of (i) the FMV of the Participant's vested Share Deferral Account, calculated as the date on which the amount becomes payable, as determined by AT&T (the Committee in the case of Officer Level Employees) in its sole discretion, and (ii) the amount reasonably necessary, as determined by the AT&T (the Committee in the case of Officer Level Employees) in its sole discretion, to satisfy the emergency need (which may include amounts necessary to pay any Federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the distribution). Determinations of the amount reasonably necessary to satisfy the emergency need shall take into account any additional compensation that is available if the plan provides for cancellation of a deferral election upon a payment due to an Unforeseeable Emergency. The determination of amounts reasonably necessary to satisfy the Unforeseeable Emergency need is not required to, but may, take into account any additional compensation that, due to the Unforeseeable Emergency, is available under another nonqualified deferred compensation plan but has not actually been paid, or that is available due to the Unforeseeable Emergency under another plan that would provide for deferred compensation except due to the application of the effective date provisions under Treasury Regulation §1.409A-6.

(c) Upon such distribution on account of an Unforeseeable Emergency under this Plan, any election to make Employee Contributions by such Participant shall be immediately cancelled, and the Participant shall not be permitted to make a new election with respect to Employee Contributions that would be contributed during the then current and immediately following calendar year.

6.4 Ineligible Participant.

Notwithstanding any other provisions of this Plan to the contrary, if AT&T receives an opinion from counsel selected by AT&T, or a final determination is made by a Federal, state or local government or agency, acting within its scope of authority, to the effect that an individual's continued participation in the Plan would violate applicable law, then such person shall not make further contributions to the Plan to the extent permitted by Section 409A of the Code.

6.5 Conflict of Interest Distribution.

AT&T may in its sole discretion accelerate a distribution(s) to the Participant, provided he or she is no longer actively employed by AT&T: (a) to the extent necessary for any Federal officer or employee in the executive branch to comply with an ethics agreement with the Federal government or (b) to the extent reasonably necessary to avoid the violation of an applicable Federal, state, local, or foreign ethics law or conflicts of interest law (including where such payment is reasonably necessary to permit the service provider to participate in activities in the normal course of his or her position in which the service provider would otherwise not be able to participate under an applicable rule). Any such distribution may only be made in accordance with Section 409A of the Code and the regulations thereunder.

6.6 Distribution Process.

A Share Deferral Account shall be distributed under this Plan by taking the number of Share Units comprising the Account to be distributed and converting them into an equal number of shares of Stock. (Once distributed, a Share Unit shall be canceled.)

Article 7 - Transition Provisions

7.1 Stockholder Approval

The Plan was approved by Stockholders at the 2005 Annual Meeting of Stockholders.

7.2 2005 Share Deferral Accounts.

Notwithstanding Article 4 to the contrary, if an Employee is an Eligible Employee on September 30, 2004, the Employee may make an election under Article 4 on or prior to December 15, 2004, with respect to the establishment of a Share Deferral Account for the (i) contribution of Base Compensation and/or Short Term Incentive Awards paid during the period from January 1, 2005, through January 15, 2006, which shall be the Plan Year for such Share Deferral Account; and/or (ii) the conversion of a distribution of Stock that would be made during the same Plan Year pursuant to the 2001 Incentive Plan into an equal number of Share Units, so long as such conversion would not cause the recognition of income for Federal income tax purposes in respect of such distribution of Stock prior to distribution of Share Units under this Plan.

7.3 2007 Amendments.

(a) Amendments made to the Plan on November 15, 2007, shall be effective January 1, 2008. except for amendments to this Article 7, which shall be effective upon adoption. Any Participants electing prior to November 15, 2007, to make Employee Contributions in 2008 shall have their elections canceled if they do not consent by December 14, 2007, to all prior amendments to this Plan and to the Cash Deferral Plan. Subject to the foregoing consent requirements, all Employee Contribution elections made prior to 2008, including but not limited to elections to contribute Stock that would be distributed under the 2001 Incentive Plan or a successor plan, shall remain in force, subject to all other terms of the amended Plan. In addition, all unvested but not forfeited Matching Share Units shall vest on November 15, 2007. Matching Shares that have been forfeited shall not be reinstated, and no amendment to this Plan shall be interpreted as reinstating such forfeitures.

(b) Not withstanding anything to the contrary in this Plan, a Participant who as of December 29, 2006, was eligible for an additional payment pursuant to Section 4A of the BellSouth Corporation Executive Incentive Award Deferral Plan shall not, with respect to the 2008 Plan Year, receive Matching Share Units on Base Compensation that exceeds $230,000.

7.4 2008 Amendments.

For Plan Years prior to 2009, Participants who, at the time of the determination of their eligibility to participate in an Account, are paid through a "sales plan" involving the use of commissions may elect to contribute up to 40% of Base Compensation. For the 2008 Plan Year, only Salary and Short Term Incentive Awards paid after Termination of Employment may be contributed to the Plan.

Article 8 - Options

8.1 Grants.

Options may be issued in definitive form or recorded on the books and records of AT&T for the account of the Participant, at the discretion of AT&T. If AT&T elects not to issue the Options in definitive form, they shall be deemed issued, and the Participants shall have all rights incident thereto as if they were issued on the dates provided herein, without further action on the part of AT&T or the Participant. In addition to the terms herein, all Options shall be subject to such additional provisions and limitations as provided in any Administrative Procedures adopted by the Committee prior to the issuance of such Options. The number of Options issued to a Participant shall be reflected on the Participant's annual statement of account.

8.2 Term of Options.

The Options may only be exercised: (a) after the earlier of (i) the expiration of one (1) year from date of issue or (ii) the Participant's Termination of Employment, and (b) no later than the tenth (10th) anniversary of their issue; and Options shall be subject to earlier termination as provided herein.

8.3 Exercise Price.

The Exercise Price of an Option shall be the FMV of the Stock on the date of issuance of the Option, and an Option may not be repriced.

8.4 Issuance of Options .

(a) For each Share Deferral Account established by a Participant pursuant to an Employee Contribution election where such election was made prior to January 1, 2010:

(1) on June 15 of the Plan Year for the Share Deferral Account, the Participant shall receive two (2) Options for each Share Unit acquired by the Participant as part of such Share Deferral Account during the immediately preceding January through May period with Employee Contributions of Base Compensation and/or Short Term Incentive Award. A fractional number of Options shall be rounded up to the next whole number.

(2) on the February 15 immediately following the Plan Year for the Share Deferral Account, a Participant shall receive:

(i) two (2) Options for each Share Unit acquired by the Participant as part of such Share Deferral Account during the immediately preceding June through the remainder of the relevant Plan Year with Employee Contributions of Base Compensation and/or Short Term Incentive Award; and

(ii) two (2) Options for each Share Unit acquired prior to such date by the Participant with dividend equivalents that were derived, directly or indirectly (such as dividend equivalents paid on Share Units acquired with dividend equivalents), from Share Units acquired with Employee Contributions as part of such Share Deferral Account.

(b) A fractional number of Options shall be rounded up to the next whole number.

(c) If Stock is not traded on the NYSE on any of the foregoing Option issuance dates, then the Options shall not be issued until the next such day on which Stock is so traded.

(d) If a Participant Terminates Employment other than (i) while Retirement eligible or (ii) because of death or Disability, no further Options shall be issued to or with respect to such Participant. In the event of re-Employment following a Termination of Employment, the preceding sentence shall not apply to those Options resulting from participation in the Plan after such re-Employment until a subsequent Termination of Employment.

(e) No more than 400,000 Options shall be issued to any individual under this Plan during a calendar year. No Share Unit may be counted more than once for the issuance of Options.

(f) The Committee may, in its sole discretion, at any time, increase or lower the number of Options that are to be issued for each Share Unit acquired, not to exceed two (2) Options per Share Unit purchased. However, if the Committee lowers the number of Options, then such change shall only be effective with respect to the next Share Deferral Account a Participant may elect to establish.

(g) The Committee may also, at any time and in any manner, limit the number of Options which may be acquired as a result of the Short Term Incentive Award being contributed to the Plan. Further, except as otherwise provided by the Committee, in determining the number of Options to be issued to a Participant with respect to a Participant's contribution of a Short Term Incentive Award to the Plan and subsequent crediting of Share Units, Options may be issued only with respect to an amount which does not exceed the target amount of such award (or such other portion of the award as may be determined by the Committee). Where a Participant's election to contribute a Short Term Incentive Award to the Plan becomes applicable to Annual Bonus, the above limitation on options shall apply to the contribution of Annual Bonus as though it were a Short Term Incentive Award.

(h) No options shall be issued to or in respect of a Participant for a particular issuance, unless at least ten (10) Options will be issued to that Participant.

8.5 Exercise and Payment of Options .

Options shall be exercised by providing notice to the designated agent selected by AT&T (if no such agent has been designated, then to AT&T), in the manner and form determined by AT&T, which notice shall be irrevocable, setting forth the exact number of shares of Stock with respect to which the Option is being exercised and including with such notice payment of the Exercise Price. When Options have been transferred, AT&T or its designated agent may require appropriate documentation that the person or persons exercising the Option, if other than the Participant, has the right to exercise the Option. No Option may be exercised with respect to a fraction of a share of Stock.

Exercises of Options may be effected only on days and during the hours that the New York Stock Exchange is open for regular trading or as otherwise provided or limited by AT&T. If an Option expires on a day or at a time when exercises are not permitted, then the Options may be exercised no later than the immediately preceding date and time that the Options were exercisable.

The Exercise Price shall be paid in full at the time of exercise. No Stock shall be issued or transferred until full payment has been received therefore.

Payment may be made:

(a) in cash, or

(b) unless otherwise provided by the Committee at any time, and subject to such additional terms and conditions and/or modifications as AT&T may impose from time to time, and further subject to suspension or termination of this provision by AT&T at any time, by:

(i) electing a Stock-Settled Exercise on or after February 1, 2013. Upon exercise of Options through a Stock-Settled Exercise, the Participant shall receive that number of shares of Stock found by (1) subtracting the Exercise Price of an Option being exercised (on a per share basis) from the FMV of the Stock as of the immediately preceding day that the Stock was traded on the NYSE, (2) multiplying the difference by the number of Options being exercised, and (3) dividing the result by the same FMV. For example, a Participant exercises 1,000 Options with an Exercise Price of $30 (exercises may only occur on a day when the NYSE is open for regular trading) and the FMV for the immediately preceding trading day was $40. In that case, the Participant would receive his $10,000 profit in the form of 250 shares of Stock, subject to tax withholding and any other costs provided under this Plan.

or;

(ii) if AT&T has designated a stockbroker to act as AT&T's agent to process Option exercises, issuance of an exercise notice to such stockbroker together with instructions irrevocably instructing the stockbroker: (A) to immediately sell (which shall include an exercise notice that becomes effective upon execution of a sell order) a sufficient portion of the Stock to pay the Exercise Price of the Options being exercised and the required tax withholding, and (B) to deliver on the settlement date the portion of the proceeds of the sale equal to the Exercise Price and tax withholding to AT&T. In the event the stockbroker sells any Stock on behalf of a Participant, the stockbroker shall be acting solely as the agent of the Participant, and AT&T disclaims any responsibility for the actions of the stockbroker in making any such sales. No Stock shall be issued until the settlement date and until the proceeds (equal to the Exercise Price and tax withholding) are paid to AT&T.

8.6 Restrictions on Exercise and Transfer.

No Option shall be transferable except: (a) upon the death of a Participant in accordance with AT&T's Rules for Employee Beneficiary Designations, as the same may be amended from time to time; and (b) in the case of any holder after the Participant's death, only by will or by the laws of descent and distribution. During the Participant's lifetime, the Participant's Options shall be exercisable only by the Participant or by the Participant's guardian or legal representative. After the death of the Participant, an Option shall only be exercised by the holder thereof (including but not limited to an executor or administrator of a decedent's estate) or his or her guardian or legal representative. In each such case the Option holder shall be considered a Participant for the limited purpose of exercising such Options.

8.7 Termination of Employment .

(a) *Not Retirement Eligible.* Unless otherwise provided by the Committee, if a Participant Terminates Employment while not Retirement eligible, a Participant's Options may be exercised, to the extent then exercisable:

(i) if such Termination of Employment is by reason of death or Disability, then for a period of three (3) years from the date of such Termination of Employment or until the expiration of the stated term of such Option, whichever period is shorter; or

(ii) if such Termination of Employment is for any other reason, then for a period of one (1) year from the date of such Termination of Employment or until the expiration of the stated term of such Option, whichever period is shorter.

(b) *Retirement Eligible.* Unless otherwise provided by the Committee, if a Participant Terminates Employment while Retirement eligible, the Participant's Option may be exercised, to the extent then exercisable: (i) for a period of five (5) years from the date of Retirement or (ii) until the expiration of the stated term of such Option, whichever period is shorter.

(c) Re-Employment of a Participant after a Termination of Employment shall have no effect on the periods during which Options resulting from the prior Employment may be exercised. For example, if the Option exercise period has been shortened because of the prior Termination of Employment, it shall not be extended because of the re-Employment.

(d) Notwithstanding any other definition of Termination of Employment under this Plan, for purposes of this Article 8 – Options only, a Termination of Employment shall mean the cessation of the Employee being employed by any corporation, partnership, venture or other entity in which AT&T holds, directly or indirectly, a 50% or greater ownership interest, including but not limited to where AT&T ceases to hold such interest in the employing company. In addition, the definition of Retirement for purposes of this Article 8 shall use the immediately foregoing definition of Termination of Employment in lieu of any other definition.

Article 9 - Discontinuation, Termination, Amendment .

9.1 AT&T's Right to Discontinue Offering Share Units.

The Committee may at any time discontinue offerings of Share Units under the Plan. Any such discontinuance shall have no effect upon existing Share Units or the terms or provisions of this Plan as applicable to such Share Units.

9.2 AT&T's Right to Terminate Plan.

The Committee may terminate the Plan at any time. Upon termination of the Plan, contributions shall no longer be made under the Plan.

After termination of the Plan, Participants shall continue to earn dividend equivalents in the form of Share Units on undistributed Share Units and shall continue to receive all distributions under this Plan at such time as provided in and pursuant to the terms and conditions of Participant's elections and this Plan. Notwithstanding the foregoing, the termination of the Plan shall be made solely in accordance with Section 409A of the Code and in no event shall cause the accelerated distribution of any Account unless such termination is effected in accordance with Section 409A of the Code.

9.3 Amendment .

The Committee may at any time amend the Plan in whole or in part including but not limited to changing the formulas for determining the amount of AT&T Matching Contributions under Article 5 or decreasing the number of Options to be issued under Article 8; provided, however, that no amendment, including but not limited to an amendment to this section, shall be effective, without the consent of a Participant, to alter, to the material detriment of such Participant, a Share Deferral Account of the Participant, other than as provided elsewhere in this section. For purposes of this section, an alteration to the material detriment of a Participant shall include, but not be limited to, a material reduction in the period of time over which Stock may be distributed to a Participant, any reduction in the Participant's number of vested Share Units or Options, or an increase in the Exercise Price or decrease in the term of an Option. Any such consent may be in a writing, telecopy, or e-mail or in another electronic format. An election to acquire Share Units with Employee Contributions shall be conclusively deemed to be the consent of the Participant to any and all amendments to the Plan prior to such election, and such consent shall be a condition to making any election with respect to Employee Contributions.

Notwithstanding anything to the contrary contained in this section of the Plan, the Committee may modify this Plan with respect to any person subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended ("Exchange Act") to place additional restrictions on the exercise of any Option or the transfer of any Stock not yet issued under the Plan.

The Plan is established in order to provide deferred compensation to a select group of management and highly compensated employees with in the meaning of Sections 201(2) and 301(a)(3) of ERISA. To the extent legally required, the Code and ERISA shall govern the Plan, and if any provision hereof is in violation of an applicable requirement thereof, the Company reserves the right to retroactively amend the Plan to comply therewith to the extent permitted under the Code and ERISA. The Company also reserves the right to make such other changes as may facilitate implementation of Section 409A of the Code. Provided, however, that in no event shall any such amendments be made in violation of the requirements of Section 409A of the Code.

Article 10 – Miscellaneous.

10.1 Tax Withholding .

Upon distribution of Stock, including but not limited to, shares of Stock issued upon the exercise of an Option, AT&T shall withhold shares of Stock sufficient in value, using the FMV on the date determined by AT&T to be used to value the Stock for tax purposes, to satisfy the minimum amount of Federal, state, and local taxes required by law to be withheld as a result of such distribution. Employment taxes incurred by a Participant on Employee Contributions and on Matching Contributions shall be withheld from the Participant's regular wages or paid in cash by the Participant as they become due.

Any fractional share of Stock payable to a Participant shall be withheld as additional Federal withholding, or, at the option of AT&T, paid in cash to the Participant.

Unless otherwise determined by the Committee, when the method of payment for the Exercise Price is from the sale by a stockbroker pursuant to Section 8.5, hereof, of the Stock acquired through the Option exercise, then the tax withholding shall be satisfied out of the proceeds. For administrative purposes in determining the amount of taxes due, the sale price of such Stock shall be deemed to be the FMV of the Stock.

10.2 Elections and Notices.

Notwithstanding anything to the contrary contained in this Plan, all elections and notices of every kind under this Plan shall be made on forms prepared by AT&T or the General Counsel, Secretary or Assistant Secretary, or their respective delegates or shall be made in such other manner as permitted or required by AT&T or the General Counsel, Secretary or Assistant Secretary, or their respective delegates, including through electronic means, over the Internet or otherwise. An election shall be deemed made when received by AT&T (or its designated agent, but only in cases where the designated agent has been appointed for the purpose of receiving such election), which may waive any defects in form. Unless made irrevocable by the electing person, each election with regard to making Employee Contributions or distributions of Share Deferral Accounts shall become irrevocable at the close of business on the last day to make such election. AT&T may limit the time an election may be made in advance of any deadline.

If not otherwise specified by this Plan or AT&T, any notice or filing required or permitted to be given to AT&T under the Plan shall be delivered to the principal office of AT&T, directed to the attention of the Senior Executive Vice President in charge of Human Resources for AT&T or his or her successor. Such notice shall be deemed given on the date of delivery.

Notice to the Participant shall be deemed given when mailed (or sent by telecopy) to the Participant's work or home address as shown on the records of AT&T or, at the option of AT&T, to the Participant's e-mail address as shown on the records of AT&T. It is the Participant's responsibility to ensure that the Participant's addresses are kept up to date on the records of AT&T. In the case of notices affecting multiple Participants, the notices may be given by general distribution at the Participants' work locations.

By participating in the Plan, each Participant agrees that AT&T may provide any documents required or permitted under the Federal or state securities laws, including but not limited to the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, by e-mail, by e-mail attachment, or by notice by e-mail of electronic delivery through AT&T's Internet Web site or by other electronic means.

10.3 Unsecured General Creditor .

Participants and their beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, interest, or claims in any property or assets of any Employer. No assets of any Employer shall be held under any trust for the benefit of Participants, their beneficiaries, heirs, successors, or assigns, or held in any way as collateral security for the fulfilling of the obligations of any Employer under this Plan. Any and all of each Employer's assets shall be, and remain, the general, unpledged, unrestricted assets of such Employer. The only obligation of an Employer under the Plan shall be merely that of an unfunded and unsecured promise of AT&T to distribute shares of Stock corresponding to Share Units and Options, under the Plan.

10.4 Non-Assignability .

Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt, shares of Stock corresponding to Share Units under the Plan, if any, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable. No part of the Stock distributable shall, prior to actual distribution, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

10.5 Employment Not Guaranteed .

Nothing contained in this Plan nor any action taken hereunder shall be construed as a contract of employment or as giving any employee any right to be retained in the employ of an Employer or to serve as a director.

10.6 Errors.

At any time AT&T or an Employer may correct any error made under the Plan without prejudice to AT&T or any Employer. Neither AT&T nor any Employer shall be liable for any damages resulting from failure to timely allow any contribution to be made to the Plan or for any damages resulting from the correction of, or a delay in correcting, any error made under the Plan. In no event shall AT&T or any Employer be liable for consequential or incidental damages arising out of a failure to comply with the terms of the Plan.

10.7 Captions .

The captions of the articles, sections, and paragraphs of this Plan are for convenience only and shall not control nor affect the meaning or construction of any of its provisions.

10.8 Governing Law .

To the extent not preempted by Federal law, the Plan, and all benefits and agreements hereunder, and any and all disputes in connection therewith, shall be governed by and construed in accordance with the substantive laws of the State of Texas, without regard to conflict or choice of law principles which might otherwise refer the construction, interpretation or enforceability of this Plan to the substantive law of another jurisdiction.

Because benefits under the Plan are granted in Texas, records relating to the Plan and benefits thereunder are located in Texas, and the Plan and benefits thereunder are administered in Texas, AT&T and the Participant under this Plan, for themselves and their successors and assigns, irrevocably submit to the exclusive and sole jurisdiction and venue of the state or Federal courts of Texas with respect to any and all disputes arising out of or relating to this Plan, the subject matter of this Plan or any benefits under this Plan, including but not limited to any disputes arising out of or relating to the interpretation and enforceability of any benefits or the terms and conditions of this Plan. To achieve certainty regarding the appropriate forum in which to prosecute and defend actions arising out of or relating to this Plan, and to ensure consistency in application and interpretation of the Governing Law to the Plan, the parties agree that (a) sole and exclusive appropriate venue for any such action shall be an appropriate Federal or state court in Dallas County, Texas, and no other, (b) all claims with respect to any such action shall be heard and determined exclusively in such Texas court, and no other, (c) such Texas court shall have sole and exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating hereto and (d) that the parties waive any and all objections and defenses to bringing any such action before such Texas court, including but not limited to those relating to lack of personal jurisdiction, improper venue or *forum non conveniens* .

10.9 Plan to Comply with Section 409A.

In the event any provision of this Plan is held invalid, void, or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan. Notwithstanding any provision to the contrary in this Plan, each provision in this Plan shall be interpreted to permit the deferral of compensation in accordance with Section 409A of the Code and any provision that would conflict with such requirements shall not be valid or enforceable.

10.10 Successors and Assigns .

This Plan shall be binding upon AT&T and its successors and assigns.

10.11 Loyalty Conditions for Officer Level Employees and Senior Managers

Each Officer Level Employee or a Senior Manager who elects to make Employee Contributions under Section 4.1 of this Plan shall be subject to the agreements and conditions of this section.

(a) By making an Employee Contribution election under Section 4.1 of this Plan after September 1, 2009, a Participant acknowledges that AT&T would be unwilling to provide for such an election but for the loyalty conditions and covenants set forth in this section, and that the conditions and covenants herein are a material inducement to AT&T's willingness to sponsor the Plan and to offer Plan benefits for the Participants. Accordingly, as a condition to making an Employee Contribution election under Section 4.1 of this Plan after September 1, 2009, each such electing Participant is deemed to agree that he shall not, without obtaining the written consent of the Committee in advance, participate in activities that constitute engaging in competition with AT&T or engaging in conduct disloyal to AT&T, as those terms are defined in this section.

(b) Definitions . For purposes of this section and of the Plan generally:

(i) an "Employer Business" shall mean AT&T Inc. and any of its Subsidiaries, or any business in which they or any affiliate of theirs has a substantial ownership or joint venture interest;

(ii) "engaging in competition with AT&T" shall mean, while employed by AT&T or any of its Subsidiaries, or within two (2) years after Participant's Termination of Employment, engaging by the Participant in any business or activity in all or any portion of the same geographical market where the same or substantially similar business or activity is being carried on by an Employer Business. "Engaging in competition with AT&T" shall not include owning a non-substantial publicly traded interest as a shareholder in a business that competes with an Employer Business. "Engaging in competition with AT&T" shall include representing or providing consulting services to, or being an employee of, any person or entity that is engaged in competition with any Employer Business or that takes a position adverse to any Employer Business.

(iii) "engaging in conduct disloyal to AT&T" means, while employed by AT&T or any of its Subsidiaries, or within two (2) years after Participant's Termination of Employment, (i) soliciting for employment or hire, whether as an employee or as an independent contractor, for any business in competition with an Employer Business, any person employed by AT&T or any of its Subsidiaries during the one (1) year prior to the Participant's Termination of Employment, whether or not acceptance of such position would constitute a breach of such person's contractual obligations to AT&T or any of its Subsidiaries; (ii) soliciting, encouraging, or inducing any vendor or supplier with which Participant had business contact on behalf of any Employer Business during the two (2) years prior to the Participant's Termination of Employment (regardless of the reason for that termination) to terminate, discontinue, renegotiate, reduce, or otherwise cease or modify its relationship with AT&T or any of its Subsidiaries; or (iii) soliciting, encouraging, or inducing any customer or active prospective customer with whom Participant had business contact, whether in person or by other media ("Customer"), on behalf of any Employer Business during the two (2) years prior to the Participant's Termination of Employment (regardless of the reason for that termination), to terminate, discontinue, renegotiate, reduce, or otherwise cease or modify its relationship with any Employer Business, or to purchase competing goods or services from a business competing with any Employer Business, or accepting or servicing business from such Customer on behalf of himself or any other business. "Engaging in conduct disloyal to AT&T" shall also mean, disclosing Confidential Information to any third party or using Confidential Information, other than for an Employer Business, or failing to return any Confidential Information to the Employer Business following termination of employment.

(iv) "Confidential Information" shall mean all information belonging to, or otherwise relating to, an Employer Business, which is not generally known, regardless of the manner in which it is stored or conveyed to Participant, and which the Employer Business has taken reasonable measures under the circumstances to protect from unauthorized use or disclosure. Confidential Information includes trade secrets as well as other proprietary knowledge, information, know-how, and non-public intellectual property rights, including unpublished or pending patent applications and all related patent rights, formulae, processes, discoveries, improvements, ideas, conceptions, compilations of data, and data, whether or not patentable or copyrightable and whether or not it has been conceived, originated, discovered, or developed in whole or in part by Participant. For example, Confidential Information includes, but is not limited to, information concerning the Employer Business' business plans, budgets, operations, products, strategies, marketing, sales, inventions, designs, costs, legal strategies, finances, employees, customers, prospective customers, licensees, or licensors; information received from third parties under confidential conditions; or other valuable financial, commercial, business, technical or marketing information concerning the Employer Business, or any of the products or services made, developed or sold by the Employer Business. Confidential Information does not include information that (i) was generally known to the public at the time of disclosure; (ii) was lawfully received by Participant from a third party; (iii) was known to Participant prior to receipt from the Employer Business; or (iv) was independently developed by Participant or independent third parties; in each of the foregoing circumstances, this exception applies only if such public knowledge or possession by an independent third party was without breach by Participant or any third party of any obligation of confidentiality or non-use, including but not limited to the obligations and restrictions set forth in this Plan.

(c) Equitable Relief. The parties recognize that any Participant's breach of any of the covenants in this section will cause irreparable injury to the AT&T, will represent a failure of the consideration under which AT&T (in its capacity as creator and sponsor of the Plan) agreed to provide the Participant with the opportunity to receive Plan benefits, and that monetary damages would not provide AT&T with an adequate or complete remedy that would warrant AT&T's continued sponsorship of the Plan (including the accrual or granting of Share Units, Matching Share Units and Options) for all Participants. Accordingly, in the event of a Participant's actual or threatened breach of the covenants in this section, the Committee, in addition to all other rights and acting as a fiduciary under ERISA on behalf of all Participants, shall have a fiduciary duty (in order to assure that AT&T receives fair and promised consideration for its continued Plan sponsorship and funding) to seek an injunction restraining the Participant from breaching the covenants in this Section. AT&T shall pay for any Plan expenses that the Committee incurs hereunder, and shall be entitled to recover from the Participant its reasonable attorneys' fees and costs incurred in obtaining such injunctive remedies.

(d) Uniform Enforcement. In recognition of AT&T's need for nationally uniform standards for the Plan administration, it is an absolute condition in consideration of any Participant's ability to make Employee Contribution elections under Section 4.1 of this Plan after September 1, 2009, that each and all of the following conditions apply to all such electing Participants:

(i) ERISA shall control all issues and controversies hereunder, and the Committee shall serve for purposes hereof as a "fiduciary" of the Plan and its "named fiduciary" within the meaning of ERISA.

(ii) All litigation between the parties relating to this section shall occur in federal court, which shall have exclusive jurisdiction; any such litigation shall be held in the United States District Court for the Northern District of Texas, and the only remedies available with respect to the Plan shall be those provided under ERISA.

AT&T HEALTH PLAN

Effective February 1, 2018

ARTICLE 1 PURPOSE

The AT&T Health Plan ("Plan") provides Participants with certain medical, dental, and vision benefits, as specified herein. Effective March 23, 2010, the Plan shall be frozen to new Participants, except as described in Section 2.16. The Company intends this Plan to be a "grandfathered health plan" under the Patient Protection and Affordable Care Act (the "Affordable Care Act"). Appendix C hereto contains the required Participant disclosure regarding the Plan's grandfathered status under the Affordable Care Act.

ARTICLE 2 DEFINITIONS

For purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

2.1 **Active Participant**. "Active Participant" shall mean an Active Employee Participant and his Dependents.

2.2 **Active Employee Participant**. "Active Employee Participant" shall mean an Eligible Employee electing to participate in the Plan while in active service, on a Leave of Absence or while receiving short term disability benefits under the Officer Disability Plan.

2.3 **Annual Deductible**. "Annual Deductible" shall mean the amount the Active Participant must pay for Covered Health Services in a Plan Year before the Plan will begin paying for Covered Benefits in that calendar year. The Annual Deductible applies to all Covered Health Services. The Annual Deductible does not apply to Preventive Care, Dental Services and Vision Services. Once the Participant meets his applicable Annual Deductible, the Plan will begin to pay Covered Benefits, subject to any required Coinsurance, in accordance with and as governed by Section 4.1. The applicable Annual Deductible is set forth in Appendix A to this Plan.

2.4 **Annual Out-of-Pocket Maximum .** "Annual Out-of-Pocket Maximum" shall mean the maximum amount of Covered Health Services an Active Participant must pay out-of-pocket every calendar year, including the Participant's Annual Deductible. Once the Participant reaches the applicable Annual Out-of-Pocket Maximum, Covered Benefits for those Covered Health Services that apply to the Annual Out-of-Pocket Maximum are payable in accordance with and as governed by Section 4.1 during the rest of that Plan Year. The following costs shall never apply toward the Annual Out-of-Pocket Maximum: (a) any applicable Monthly Contributions and (b) any charges for Non-Covered Health Services. Even when the Annual Out-of-Pocket Maximum has been reached, Covered Benefits will not be provided for the following: (a) any applicable Monthly Contributions and (b) any charges for Non-Covered Health Services. The applicable Annual Out-of-Pocket Maximum is set forth in Appendix A to this Plan.

2.5 **AT&T** . "AT&T" shall mean AT&T Inc. References to "Company" shall mean AT&T.

2.6 **Basic Plan(s)** . "Basic Plan(s)" shall mean AT&T's group dental (non-DHMO option), and vision care plans (including the AT&T Retiree Vision Care Program) or the "AT&T International Health Plan" for Officers serving in expatriate positions with the Company.

2.7 **CEO** . "CEO" shall mean the Chief Executive Officer of AT&T Inc.

2.8 **COBRA** . " COBRA" shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

2.9 **Coinsurance .** "Coinsurance" shall mean the amount an Active Participant must pay each time he/she receives Covered Health Services, after he/she meets the applicable Annual Deductible. Coinsurance payments are calculated as a percentage of Covered Health Services, rather than a set dollar amount. Coinsurance does not apply to Preventive Care, Dental Services and Vision Services (or Medical Services for Retired Participants as provided in Section 4.1(c)). The applicable Coinsurance percentage is set forth in Appendix A to this Plan.

2.10 **Committee** . "Committee" shall mean the Human Resources Committee of the Board of Directors of AT&T Inc.

2.11 **Covered Benefits** . "Covered Benefits" shall mean the benefits provided by the Plan, as provided for and governed by Section 4.1 of the Plan.

2.12 **Covered Health Services** . "Covered Health Services" means all Medical Services or Preventive Care that would qualify as deductible medical expenses for federal income tax purposes, whether deducted or not. Dental Services and Vision Services are not included in the definition of Covered Health Services.

2.13 **Dental Services** . "Dental Services" shall mean services for dental and orthodontic care. The Plan Administrator, in its sole discretion, shall determine whether a particular service is classified as Preventive Care or a Dental, Medical or Vision Service.

2.14 **Dependent(s)** . "Dependent(s)" shall mean those individuals who would qualify as a Participant's dependent(s) under the terms of the Basic Plan in which the Participant participates (or last previously participated with respect to Medicare Eligible Retired Participants (the "Prior Basic Plan"), or, if applicable, Substitute Basic Coverage.

2.15 **Disability .** "Disability" shall mean qualification for long term disability benefits under Section 3.1 of the Officer Disability Plan.

2.16 **Eligible Employee** . "Eligible Employee" shall mean an Officer. Notwithstanding the foregoing, the CEO may, from time to time, exclude any Officer or group of Officers from being an "Eligible Employee" under this Plan. Employees of a company acquired by AT&T shall not be considered an Eligible Employee unless designated as such by the CEO. Notwithstanding the foregoing, only the Committee shall have the authority to exclude from participation or take any action with respect to Executive Officers.

Notwithstanding the foregoing provisions, unless otherwise provided for in Appendix D to this Plan, individuals hired, rehired or promoted to an Officer level position on or after March 23, 2010 shall be excluded from the term Eligible Employee, and such individuals (and their Dependents) shall not be eligible to participate in this Plan.

2.17 **Employer** . "Employer" shall mean AT&T Inc. or any of its Subsidiaries.

2.18 **Executive Officer** . "Executive Officer" shall mean any executive officer of AT&T, as that term is used under the Securities Exchange Act of 1934.

2.19 **Leave of Absence** . "Leave of Absence" shall mean a Company-approved leave of absence.

2.20 **Medical Services .** "Medical Services" shall mean medical/surgical, mental health/substance abuse and prescription pharmacy services. The Plan Administrator, in its sole discretion, shall determine whether a particular service is classified as Preventive Care or a Medical, Dental or Vision Service. Medical Services do not include Dental Services and Vision Services.

2.21 **Monthly Contributions .** "Monthly Contributions" shall mean the monthly premiums or contributions required for participation in this Plan as further governed by Article 7 of the Plan. The applicable Monthly Contributions are set forth in Exhibit A to this Plan.

2.22 **Non-Covered Health Services .** "Non-Covered Health Services" shall mean any Medical Services or Preventive Care which do not meet the definition of Covered Health Services.

2.23 **Officer** . "Officer" shall mean an individual who is designated as an officer level employee for compensation purposes on the records of AT&T.

2.24 **Participant** . "Participant" shall mean an Active Participant or Retired Participant or both, as the context indicates.

2.25 **Plan Administrator** . "Plan Administrator" shall mean the SEVP-HR, or any other person or persons whom the Committee may appoint to administer the Plan; provided that the Committee may act as the Plan Administrator at any time.

2.26 **Plan Year** . "Plan Year" shall mean the calendar year.

2.27 **Preventive Care** . "Preventive Care" generally focuses on evaluating a Participant's current health status when the Participant is symptom-free and taking the necessary steps to maintain the Participant's health. The Plan Administrator, in its sole discretion, shall determine whether a particular service constitutes Preventive Care.

2.28 **Qualified Dependent** . "Qualified Dependent" shall mean a Dependent who loses coverage under a COBRA eligible program due to a Qualifying Event.

2.29 **Qualifying Event** . "Qualifying Event" shall mean any of the following events if, but for COBRA continuation coverage, they would result in a Participant's loss of coverage under this Plan:

(1) death of a covered Eligible Employee;
(2) termination (other than by reason of such Eligible Employee's gross misconduct) of an Employee's employment;
(3) reduction in hours of an Eligible Employee;
(4) divorce or legal separation of an Eligible Employee or dissolution of an Eligible Employee's registered domestic partnership;
(5) an Eligible Employee's entitlement to Medicare benefits; or
(6) a Dependent child ceasing to qualify as a Dependent under the Basic Plan,(or, if applicable, Substitute Basic Coverage) or with respect to a Dependent child who is a Medicare Eligible Retired Participant, the child's ceasing to otherwise qualify under the Prior Basic Plan .

2.30 **Retire, Retired or Retirement** . "Retire," "Retired" or "Retirement" shall mean the termination of an Active Employee Participant's employment with AT&T or any of its Subsidiaries, for reasons other than death, on or after the earlier of the following dates: (1) the date such Active Employee Participant has attained age 55, and, for an Active Employee Participant on or after January 1, 2002, has five (5) years of service, or (2) the date the Active Employee Participant has attained one of the following combinations of age and service at termination of employment on or after April 1, 1997:

Net Credited Service	Age
25 years or more	50 or older
30 years or more	Any age

2.31 **Retired Participant** . "Retired Participant" shall mean a Retired Employee Participant and his Dependents.

2.32 **Retired Employee Participant** . "Retired Employee Participant" shall mean a former Active Employee Participant who has Retired within the meaning of Section 2.30 and who meets the additional requirements of Section 3.2 to be eligible for coverage in Retirement.

2.33 **SEVP-HR .** "SEVP-HR" shall mean AT&T's highest ranking Officer, specifically responsible for human resources matters.

2.34 **Subsidiary** . "Subsidiary" shall mean any corporation, partnership, venture or other entity in which AT&T holds, directly or indirectly, a 50% or greater ownership interest. The Committee may, at its sole discretion, designate any other corporation, partnership, venture or other entity a Subsidiary for the purpose of participating in this Plan. Notwithstanding anything herein to the contrary, unless designated a "Subsidiary" pursuant to the immediately preceding sentence, Cingular Wireless LLC, Sterling Commerce, Inc., and their respective subsidiaries shall not be considered a Subsidiary under this Plan.

2.35 **Vision Services** . "Vision Services" shall mean services for vision care. The Plan Administrator, in its sole discretion, shall determine whether a particular service is classified as Preventive Care or a Vision, Medical or Dental Service.

2.36 **Medicare Eligible Retired Participant** . "Medicare Eligible Retired Participant" shall mean a Retired Participant who is eligible for Medicare due to reaching the eligible age for Medicare.

ARTICLE 3 ELIGIBILITY

3.1 **Active Participants**. Each Eligible Employee shall be eligible to participate in this Plan along with his/her Dependent(s) beginning on the effective date of the employee becoming an Eligible Employee.

Upon becoming an Eligible Employee, he/she shall have 90 days to elect to participate in this Plan. In order to continue participation, the Active Participant must pay all applicable Monthly Contributions. If an Active Employee Participant terminates participation in this Plan at any time for any reason, that Participant and his/her Dependent(s) shall be ineligible to participate in the Plan at any time in the future.

3.2 **Retired Participants.** Provisions of this Plan will continue in effect during Retirement for each Retired Employee Participant and his/her Dependent(s) with respect to any Eligible Employee who became a Participant before January 1, 1999. Neither an Eligible Employee who became a Participant after December 31, 1998 nor his/her Dependent(s) shall be eligible for participation hereunder on or after such Participant's Retirement. Coverage for Retired Participants shall be subject to the payment of all applicable Monthly Contributions, as governed by Article 7. The provisions of this Plan related to Retired Participants, including the level of Covered Benefits and the applicable Monthly Premiums, shall begin to apply on the first day of the month following the month in which the Active Employee Participant Retires. If a Retired Employee Participant terminates participation at any time for any reason, participation of that Retired Employee participant and his/her Dependent(s) may not be reinstated for any reason.

3.3 **Requirement to Enroll and Participate in Basic Plans and Medicare.** Notwithstanding any provision in this plan to the contrary, as a condition to participation in the Plan, each Participant must be enrolled in, paying for, and participating in (i) the Basic Plans if such Participant is eligible for coverage under the terms of the Basic Plans, or, if applicable, Substitute Basic Coverage, and (ii) all parts of Medicare for which such Participant is eligible and for which Medicare would be primary if enrolled therein, except for Medicare Part D relating to prescription drug coverage.

Notwithstanding any other provision of the Plan to the contrary, an individual who first becomes an Eligible Employee in the middle of a Plan Year and who is enrolled in AT&T sponsored group health plans other than the Basic Plans, will be allowed to participate in the Plan for the remainder of the Plan Year along with his/her Dependent(s) who are enrolled in such other AT&T sponsored health plans, as if they were participating in the Basic Plans. At the next group enrollment opportunity for the Basic Plans, the Active Employee Participant and his/her Dependent(s) must enroll in the Basic Plans to continue participation in this Plan.

ARTICLE 4 BENEFITS

4.1 **Covered Benefits** . Subject to the limitations in this Plan (including but not limited to the loyalty conditions set forth in Article 8 below) , this Plan provides the benefits described below. Monthly Contributions for participation in this Plan, the Basic Plans, Medicare, or any other health plan are not considered "services", and are therefore are not Covered Benefits under this Plan.

(a) Active Participants (Medical Services and Preventive Care) -

Medical Services - After the Annual Deductible has been met, 100% payment of Covered Health Services not paid under the AT&T International Health Plan (with respect to Officers serving in expatriate positions with the Company) or Medicare minus the amount of Coinsurance, until the Active Participant reaches the Annual Out-of-Pocket Maximum, at which time coverage is 100% of Covered Health Services (or 100% of Covered Health Services not paid under the AT&T International Health Plan with respect to Officers serving in expatriate positions with the Company) .

Preventive Care - Preventive Care is covered at 100%, not subject to the Annual Deductible or Coinsurance.

(b) Active Participants (Dental Services and Vision Services) -

100% payment, through reimbursement or otherwise, of all Dental Services and Vision Services not paid under the Active Participant's (i) Basic Plans or (ii) Medicare, provided expenses for such services would qualify as deductible medical expenses for federal income tax purposes, whether deducted or not.

(c) Retired Participants –

100% payment, through reimbursement or otherwise, of all Medical, Dental, Vision and Preventive services not paid under the Retired Participant's (i) Basic Plans or Substitute Basic Coverage, if either is applicable or (ii) Medicare, provided expenses for such services would qualify as deductible medical expenses for federal income tax purposes, whether deducted or not.

4.2 **Covered Benefit Limits** . **RESERVED**

4.3 **Priority of Paying Covered Claims** . Claims for benefits will be applied against the various health plans, as applicable, and coordinated with Medicare in the following order:

(1) Medicare, to the extent the Participant is eligible therefore and such claim is actually paid by Medicare,
(2) Basic Plans, if applicable,
(3) CarePlus, if elected,
(4) Long Term Care Plan, if elected,
(5) this Plan.

4.4 **Substitute Basic Coverage** . Notwithstanding any other provision of this Plan to the contrary, if a Retired Employee Participant, other than a Medicare Eligible Retired Participant, is eligible for participation under this Plan during Retirement, but not eligible to participate under the Basic Plans, the Plan shall provide medical, dental, and vision benefits for the Retired Employee Participant and his/her Dependent(s) substantially equivalent to the benefits under the Basic Plans through an insured product (hereinafter, "Substitute Basic Coverage"). Eligibility for Substitute Basic Coverage is conditioned upon the Retired Participant's payment of contributions in the same amount that a similarly situated retired Basic Plan participant is required to pay under the Basic Plans. Such Substitute Basic Coverage shall constitute such Retired Participant's Basic Plans for all purposes under this Plan. The costs of Substitute Basic Coverage (except for the required monthly contributions referenced in this paragraph) shall be borne by AT&T, and the costs of Substitute Basic Coverage shall not be included in the determination of any Retired Participant's annual Plan contribution amount as provided in Article 7. In addition, certain other Retired Employee Participants participate in the "Separation Medical Plan" rather than the Basic Plans. References to Substitute Basic Coverage throughout this Plan shall be deemed to include the Separation Medical Plan. The Plan Administrator maintains records governing the names of those Retired Employee Participants who have Substitute Basic Coverage or Separation Medical Plan coverage.

ARTICLE 5 TERMINATION OF PARTICIPATION

5.1 **<u>Termination of Participation</u> .** Participation will cease on the last day of the month in which one of the following conditions occurs:

(1) The Participant, other than a Medicare Eligible Retired Participant, is no longer a participant in the Basic Plans or Substitute Basic Coverage, in which case participation ceases for such Participant;

(2) A Participant ceases to meet the definition of a Dependent (as set forth in Section 2.14 of this Plan) for any reason, in which case participation ceases for such Participant;

(3) A Participant eligible to enroll in Medicare is no longer a participant in all parts of Medicare for which such Participant is eligible to enroll and for which Medicare would be primary if enrolled therein, except for Medicare Part D relating to prescription drug coverage, in which case participation ceases for such Participant;

(4) The Active Employee Participant's termination of employment for reasons other than Death, Disability, or Retirement by an individual who meets the applicable requirements of Section 3.2 in order to qualify for Plan benefits in Retirement, in which case participation ceases for the Participant and his/her Dependent(s);

(5) The demotion or designation of an Active Employee Participant so as to no longer be eligible to participate in the Plan, in which case participation ceases for the Participant and his/her Dependent(s);

(6) The Active Employee Participant (or Retired Employee Participant) participates in an activity that constitutes engaging in competitive activity with AT&T or engaging in conduct disloyal to AT&T under Article 8, in which case participation ceases for the Active Employee Participant (or Retired Employee Participant) and his/her Dependent(s); or

(7) Discontinuance of the Plan by AT&T, or, with respect to a Subsidiary's Active Employee Participants (or Retired Employee Participants), such Subsidiary's failure to make the benefits hereunder available to Active Employee Participants employed by it (or its Retired Employee Participants).

5.2 **Dependents Failure to Participate in Basic Plans**. If a Dependent, other than a Medicare Eligible Retired Participant, ceases participation under a Basic Plan or, if applicable, Substitute Basic Coverage, such Dependent's participation under this Plan will cease with the same effective date.

5.3 **Death**. In the event of the Active Employee Participant's (or Retired Employee's Participant's) death, his Dependents may continue participation in this Plan as follows:

(1) In the event of the death of a Retired Employee Participant such Retired Employee Participant's Dependents may continue participation in this Plan, eligible for the Covered Benefits described in Section 4.1(c) of the Plan, for so long as such Dependents are participating in the Basic Plans (or, if applicable, Substitute Basic Coverage) or with respect to a Dependent who is a Medicare Eligible Retired Participant, for so long as such Dependent would have otherwise been eligible for participation under the terms of the Prior Basic Plan and are paying any applicable contributions for this Plan as provided in Article 7. If a surviving spouse of such deceased Active Employee Participant otherwise eligible for participation in the Plan remarries, his/her participation and the participation of any otherwise eligible Dependents will cease with the effective date of his/ her marriage.

(2) In the event of an in-service death of an Active Employee Participant eligible to participate in the Plan in Retirement as provided under Article 3.2, who was Retirement eligible, within the meaning of Section 2.30, at the time of death, such Active Employee Participant's surviving Dependents may continue participation in this Plan, eligible for the Covered Benefits described in Section 4.1(a) and (b), for so long as such Dependents are participating in the Basic Plans (or, if applicable Substitute Basic Coverage) or with respect to a Dependent who is a Medicare Eligible Retired Participant, for so long as such Dependent would have otherwise been eligible for participation under the terms of the Prior Basic Plan and are paying any applicable contributions for this Plan as provided in Article 7. If a surviving spouse of such deceased Active Employee Participant otherwise eligible for participation in the Plan remarries, his/her participation and the participation of any otherwise eligible Dependents will cease with the effective date of his/ her marriage.

(3) In the event of (i) an in-service death of an Active Employee Participant not eligible to participate in the Plan in Retirement as provided in Article 3.2 or (ii) an in-service death of an Active Employee Participant eligible to participate in the Plan in Retirement as provided in Article 3.2 but the individual was not Retirement eligible, within the meaning of Section 2.30, at the time of death, such Active Employee Participant's Dependent(s) may continue participation in this Plan, eligible for the Covered Benefits described in Sections 4.1(a) and (b), for a 36-month period commencing the month following the month in which such Active Employee Participant dies as long as such Dependent(s) are participating in the Basic Plans (or with respect to a Dependent who is a Medicare Eligible Retired Participant, for so long as such Dependent would have otherwise been eligible for participation under the terms of the Prior Basic Plan) and subject to the payment of Active Participant Contributions for the first 12 months and payment of Active COBRA Contributions for the remaining 24 months, as provided by Articles 7 and 10.1. If the Active Employee Participant's Dependent(s) are eligible for COBRA, they will automatically be enrolled in COBRA so that there is no lapse in coverage, and this 36-month coverage will be integrated and run concurrently with COBRA coverage.

ARTICLE 6 DISABILITY

6.1 **Disability**. With respect to any Active Employee Participant who commences receipt of short term or long term disability benefits under the Officer Disability Plan, participation under this Plan will be as follows:

(1) The Participant will continue to participate in this Plan, eligible for the Covered Benefits described in Section 4.1(a) and (b), for as long as he/she receives short term disability benefits under the Officer Disability Plan and pays the applicable contributions for this Plan as provided by Article 7.

(2) An Active Employee Participant not eligible to participate in the Plan in Retirement as provided in Article 3.2 who commences long term disability benefits under the Officer Disability Plan or an Active Employee Participant eligible to participate in the Plan in Retirement as provided in Article 3.2 but who is not Retirement eligible, within the meaning of Section 2.30, at the time long term disability benefits under the Officer Disability Plan commence, will cease participation in this Plan (along with his/her Dependents) effective as of the last day of the calendar month in which such long term disability benefits commence, unless such benefits commence on the first day of a calendar month, in which case participation in this Plan shall cease effective as of the last day of the prior month.

(3) An Active Employee Participant eligible to participate in the Plan in Retirement as provided in Article 3.2 ,who is Retirement eligible, within the meaning of Section 2.30, at the time long term disability benefits under the Officer Disability Plan commence, will be eligible to continue participation in this Plan on the same terms and conditions that participation would be available to such Participant in Retirement, subject to the payment of applicable contributions for this Plan as provided by Article 7, regardless of his/her continued receipt of long term disability benefits under the Officer Disability Plan.

ARTICLE 7 COSTS

7.1 **<u>Provision of Benefits under the Plan</u>**. Except as provided below in this Article 7 with respect to required Monthly Contributions or with respect to any required Coinsurance, the benefits available to Participants under this Plan shall be provided through an insurance policy maintained by AT&T.

7.2 **<u>Active Participant Contributions</u>**. An Active Participant electing to participate in the Plan will pay Monthly Contributions to participate in the Plan while in active service, while on Leave of Absence or while receiving short term disability benefits under the Officer Disability Plan. The Monthly Contribution for participation may change annually, effective at the beginning of each Plan Year. Contributions to be made by Active Participants electing to participate in the Plan shall be set annually by the SEVP-HR, determined in the SEVP-HR's sole and absolute discretion. The SEVP-HR may adopt tiered rates for similarly situated groups of Participants based on factors such as the number of Dependents covered or Medicare eligibility. Notwithstanding the foregoing, required Monthly Contributions for Executive Officers shall be approved by the Committee.

7.3 **Retired Participant Contributions**. Retired Participants who elect to participate will pay Monthly Contributions to participate in the Plan. The Monthly Contribution for participation may change annually, effective at the beginning of each Plan Year. Contributions to be made by Retired Participants who elect to participate shall be set annually by the SEVP-HR (in his/her sole and absolute discretion), to the extent their contributions have not previously been provided for in a separate agreement.

7.4 **Survivor Contributions.** Upon the death of a Participant, the Participant's Dependents shall be required to pay Monthly Contributions to participate in the Plan. The Monthly Contributions shall be set annually by the SEVP-HR, in the SEVP-HR's sole and absolute discretion. Any changes to the Monthly Contributions shall be effective at the beginning of each Plan Year.

7.5 **Contributions for Participants on Disability**. Participants continuing benefits while on Disability shall be required to pay Monthly Contributions to participate in the Plan. The Monthly Contributions shall be set annually by the SEVP-HR, determined in the SEVP-HR's sole and absolute discretion. Any changes to the Monthly Contributions shall be effective at the beginning of each Plan Year.

ARTICLE 8 LOYALTY CONDITIONS

8.1 Participants acknowledge that no coverage and benefits would be provided under this Plan on and after January 1, 2010 but for the loyalty conditions and covenants set forth in this Article, and that the conditions and covenants herein are a material inducement to AT&T's willingness to sponsor the Plan and to offer Plan coverage and benefits for the Participants on or after January 1, 2010. Accordingly, as a condition of receiving coverage and any Plan benefits on or after January 1, 2010, each Participant is deemed to agree that he/she shall not, without obtaining the written consent of the Plan Administrator in advance, participate in activities that constitute engaging in competition with AT&T or engaging in conduct disloyal to AT&T, as those terms are defined in this Section. Further and notwithstanding any other provision of this Plan, all coverage and benefits under this Plan on and after January 1, 2010 with respect to a Participant and his or her Dependents shall be subject in their entirety to the enforcement provisions of this Section if the Participant, without the Plan Administrator's consent, participates in an activity that constitutes engaging in competition with AT&T or engaging in conduct disloyal to AT&T, as defined below. The provisions of this Article 8 as in effect immediately before such date shall be applicable to Participants who retire before January 1, 2010.

8.2 **Definitions**. For purposes of this Article and of the Plan generally

(1) an "Employer Business" shall mean AT&T, any Subsidiary, or any business in which AT&T or a Subsidiary or an affiliated company of AT&T has a substantial ownership or joint venture interest;

(2) "engaging in competition with AT&T" shall mean, while employed by an Employer Business or within two (2) years after the Participant's termination of employment, engaging by the Participant in any business or activity in all or any portion of the same geographical market where the same or substantially similar business or activity is being carried on by an Employer Business. "Engaging in competition with AT&T" shall not include owning a nonsubstantial publicly traded interest as a shareholder in a business that competes with an Employer Business. "Engaging in competition with AT&T" shall include representing or providing consulting services to, or being an employee or director of, any person or entity that is engaged in competition with any Employer Business or that takes a position adverse to any Employer Business.

(3) "engaging in conduct disloyal to AT&T" means, while employed by an Employer Business or within two (2) years after the Participant's termination of employment, (i) soliciting for employment or hire, whether as an employee or as an independent contractor, for any business in competition with an Employer Business, any person employed by AT&T or its affiliates during the one (1) year prior to the termination of the Participant's employment, whether or not acceptance of such position would constitute a breach of such person's contractual obligations to AT&T and its affiliates; (ii) soliciting, encouraging, or inducing any vendor or supplier with which Participant had business contact on behalf of any Employer Business during the two (2) years prior to the termination of the Participant's employment, for any reason to terminate, discontinue, renegotiate, reduce, or otherwise cease or modify its relationship with AT&T or its affiliate; or (iii) soliciting, encouraging, or inducing any customer or active prospective customer with whom Participant had business contact, whether in person or by other media, on behalf of any Employer Business during the two (2) years prior to the termination of Participant's employment for any reason ("Customer"), to terminate, discontinue, renegotiate, reduce, or otherwise cease or modify its relationship with any Employer Business, or to purchase competing goods or services from a business competing with any Employer Business, or accepting or servicing business from such Customer on behalf of himself or any other business. "Engaging in conduct disloyal to

AT&T" also means, disclosing Confidential Information to any third party or using Confidential Information, other than for an Employer Business, or failing to return any Confidential Information to the Employer Business following termination of employment.

(4) "Confidential Information" shall mean all information belonging to, or otherwise relating to, an Employer Business, which is not generally known, regardless of the manner in which it is stored or conveyed to the Participant, and which the Employer Business has taken reasonable measures under the circumstances to protect from unauthorized use or disclosure. Confidential Information includes trade secrets as well as other proprietary knowledge, information, know-how, and non-public intellectual property rights, including unpublished or pending patent applications and all related patent rights, formulae, processes, discoveries, improvements, ideas, conceptions, compilations of data, and data, whether or not patentable or copyrightable and whether or not it has been conceived, originated, discovered, or developed in whole or in part by the Participant. For example, Confidential Information includes, but is not limited to, information concerning the Employer Business' business plans, budgets, operations, products, strategies, marketing, sales, inventions, designs, costs, legal strategies, finances, employees, customers, prospective customers, licensees, or licensors; information received from third parties under confidential conditions; or other valuable financial, commercial, business, technical or marketing information concerning the Employer Business, or any of the products or services made, developed or sold by the Employer Business. Confidential Information does not include information that (i) was generally known to the public at the time of disclosure; (ii) was lawfully received by the Participant from a third party; (iii) was known to the Participant prior to receipt from the Employer Business; or (iv) was independently developed by the Participant or independent third parties; in each of the foregoing circumstances, this exception applies only if such public knowledge or possession by an independent third party was without breach by the Participant or any third party of any obligation of confidentiality or non-use, including but not limited to the obligations and restrictions set forth in this Plan.

8.3 **Forfeiture of Benefits** . Subject to the provisions of Section 1001(5) of the Affordable Care Act, coverage and benefits shall be forfeited and shall not be provided under this Plan for any period as to which the Plan Administrator determines that, within the time period and without the written consent specified, Participant has been either engaging in competition with AT&T or engaging in conduct disloyal to AT&T.

8.4 **Equitable Relief .** The parties recognize that any Participant's breach of any of the covenants in this Article 8 will cause irreparable injury to AT&T, will represent a failure of the consideration under which AT&T (in its capacity as creator and sponsor of the Plan) agreed to provide the Participant with the opportunity to receive Plan coverage and benefits, and that monetary damages would not provide AT&T with an adequate or complete remedy that would warrant AT&T's continued sponsorship of the Plan and payment of Plan benefits for all Participants. Accordingly, in the event of a Participant's actual or threatened breach of the covenants in this Article, the Plan Administrator, in addition to all other rights and acting as a fiduciary under ERISA on behalf of all Participants, shall have a fiduciary duty (in order to assure that AT&T receives fair and promised consideration for its continued Plan sponsorship and funding) to seek an injunction restraining the Participant from breaching the covenants in this Article 8. In addition, AT&T shall pay for any Plan expenses that the Plan Administrator incurs hereunder, and shall be entitled to recover from the Participant its reasonable attorneys' fees and costs incurred in obtaining such injunctive remedies. To enforce its repayment rights with respect to a Participant, the Plan shall have a first priority, equitable lien on all Plan benefits provided to or for the Participant and his or her Dependents. In the event the Plan Administrator succeeds in enforcing the terms of this Article through a written settlement with the Participant or a court order granting an injunction hereunder, the Participant shall be entitled to collect Plan benefits collect Plan benefits prospectively, if the Participant is otherwise entitled to such benefits, net of any fees and costs assessed pursuant hereto (which fees and costs shall be paid to AT&T as a repayment on behalf of the Participant), provided that the Participant complies with said settlement or injunction.

8.5 **Uniform Enforcement** . In recognition of AT&T's need for nationally uniform standards for the Plan administration, it is an absolute condition in consideration of any Participant's accrual or receipt of benefits under the Plan after January 1, 2010 that each and all of the following conditions apply to all Participants and to any benefits that are paid or are payable under the Plan:

(1) ERISA shall control all issues and controversies hereunder, and the Committee shall serve for purposes hereof as a "fiduciary" of the Plan, and as its "named fiduciary" within the meaning of ERISA.

(2) All litigation between the parties relating to this Article shall occur in federal court, which shall have exclusive jurisdiction, any such litigation shall be held in the United States District Court for the Northern District of Texas, and the only remedies available with respect to the Plan shall be those provided under ERISA.

(3) If the Plan Administrator determines in its sole discretion either (I) that AT&T or its affiliate that employed the Participant terminated the Participant's employment for cause, or (II) that

equitable relief enforcing the Participant's covenants under this Article 8 is either not reasonably available, not ordered by a court of competent jurisdiction, or circumvented because the Participant has sued in state court, or has otherwise sought remedies not available under ERISA, then in any and all of such instances the Participant shall not be entitled to collect any Plan benefits, and if any Plan benefits have been paid to the, the Participant shall immediately repay all Plan benefits to the Plan (with such repayments being used within such year for increased benefits for other Participants in any manner determined in the Plan Administrator's discretion) upon written demand from the Plan Administrator. Furthermore, the Participant shall hold AT&T and its affiliates harmless from any loss, expense, or damage that may arise from any of the conduct described in clauses (I) and (II) hereof.

ARTICLE 9 MISCELLANEOUS

9.1 **Administration**. The Plan Administrator is the named fiduciary of the Plan and has the power and duty to do all things necessary to carry out the terms of the Plan. The Plan Administrator has the sole and absolute discretion to interpret the provisions of the Plan, to make findings of fact, to determine the rights and status of Participants and other under the Plan, to determine which expenses and benefits qualify as Covered Health Services or Covered Benefits, to make all benefit determinations under the Plan, to decide disputes under the Plan and to delegate all or a part of this discretion to third parties and insurers. To the fullest extent permitted by law, such interpretations, findings, determinations and decisions shall be final, binding and conclusive on all persons for all purposes of the Plan. The Plan Administrator may delegate any or all of its authority and responsibility under the Plan to other individuals, committees, third party administrators, claims administrators or insurers for any purpose, including, but not limited to the processing of benefits and claims related thereto. In carrying out these functions, these individuals or entities have been delegated responsibility and discretion for interpreting the provisions of the Plan, making findings of fact, determining the rights and status of Participants and others under the Plan, and deciding disputes under the Plan and such interpretations, findings, determinations and decisions shall be final, binding and conclusive on all persons for all purposes of the Plan.

9.2 **Amendments and Termination**. This Plan may be modified or terminated at any time in accordance with the provisions of AT&T's Schedule of Authorizations.

9.3 **Newborns' and Mothers' Health Protection Act of 1996**. To the extent this Plan provides benefits for hospital lengths of stay in connection with childbirth, the Plan will cover the minimum length of stay required for deliveries (i.e., a 48-hour hospital stay after a vaginal delivery or a 96-hour stay following a delivery by Cesarean section.) The mother's or newborn's attending physician, after consulting with the mother, may discharge the mother or her newborn earlier than the minimum length of stay otherwise required by law. Such coverage shall be subject to all other provisions of this Plan.

9.4 **Women's Health and Cancer Rights Act of 1998**. To the extent this Plan provides benefits for mastectomies, it will provide, for an individual who is receiving benefits in connection with a mastectomy and who elects breast reconstruction in connection with such mastectomy, coverage for reconstruction on the breast on which the mastectomy was performed, surgery and reconstruction on the other breast to give a symmetrical appearance, and prosthesis and coverage for physical complications of all stages of the mastectomy, including lymphedemas. Such coverage shall be subject to all other provisions of this Plan.

9.5 **Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008**. To the extent this Plan provides mental health benefits or substance use disorder benefits it will not place annual or lifetime maximums for such benefits that are lower than the annual and lifetime maximums for physical health benefits. In addition, the financial requirements (e.g., deductibles and co-payments) and treatment limitations (e.g., number of visits or days of coverage) that apply to mental health benefits or substance use disorder benefits will not be more restrictive than the predominant financial requirements or treatment limitations that apply to substantially all medical/surgical benefits; mental health benefits and substance use disorder benefits will not be subject to any separate cost sharing requirements or treatment limitations that only apply to such benefits; if the Plan provides for out of network medical/surgical or substance use disorder benefits, it will provide for out of network mental health and substance use disorder benefits and standards for medical necessity determinations and reasons for any denial of benefits relating to mental health benefits and substance use disorder benefits will be made available upon request to plan participants. Such coverage shall be subject to all other provisions of this Plan.

9.6 **Continuation of Coverage During Family or Medical Leave** . During any period which an Active Employee Participant is on a family or medical leave as defined in the Family or Medical Leave Act, any benefit elections in force for such Participant shall remain in effect. While the Participant is on paid leave, contributions shall continue. If the Participant is on an unpaid leave, the Participant may elect to prepay required contributions on a pre-tax basis before the commencement of such unpaid leave. Alternatively, the Participant may elect to make such payments on an after-tax basis monthly in accordance with an arrangement that the Plan Administrator shall provide. If coverage is not continued during the entire period of the family or medical leave because the Participant declines to pay the premium, the coverage must be reinstated upon reemployment with no exclusions or waiting periods, notwithstanding any other provision of this Plan to the contrary. If the Participant does not return to work upon completion of the leave, the Participant must pay the full cost of any health care coverage that was continued on his/her behalf during the leave. These rules apply to the COBRA eligible programs.

9.7 **Rights While on Military Leave** . Pursuant to the provisions of the Uniformed Services Employment and Reemployment Rights Act of 1994, an Active Employee Participant on military leave will be considered to be on a Leave of Absence and will be entitled during the leave to the health and welfare benefits that would be made available to other similarly situated employees if they were on a Leave of Absence. This entitlement will end if the individual provides written notice of intent not to return to work following the completion of the military leave. The individual shall have the right to continue his/her coverage, including any Dependent coverage, for the lesser of the length of the leave or 18 months. If the military leave is for a period of 31 days or more, the individual may be required to pay 102 percent of the total premium (determined in the same manner as a COBRA continuation coverage premium). If coverage is not continued during the entire period of the military leave because the individual declines to pay the premium or the leave extends beyond 18 months, the coverage must be reinstated upon reemployment with no pre-existing condition exclusions (other than for service-related illnesses or injuries) or waiting periods (other than those applicable to all Eligible Employees).

9.8 **Qualified Medical Child Support Orders** . The Plan will comply with any Qualified Medical Child Support Order issued by a court of competent jurisdiction or administrative body that requires the Plan to provide medical coverage to a Dependent child of an Active Employee or Retired Employee Participant. The Plan Administrator will establish reasonable procedures for determining whether a court order or administrative decree requiring medical coverage for a Dependent child meets the requirements for a Qualified Medical Child Support Order. The cost of coverage or any additional cost of such coverage, if any, shall be borne by the Participant.

9.9 **Right of Recovery.** If the Plan has made an erroneous or excess payment to any Participant, the Plan Administrator shall be entitled to recover such excess from the individual or entity to whom such payments were made. The recovery of such overpayment may be made by offsetting the amount of any other benefit or amount payable by the amount of the overpayment under the Plan.

ARTICLE 10 COBRA

10.1 **Continuation of Coverage Under COBRA**. Participants shall have all COBRA continuation rights required by federal law and all conversion rights. COBRA continuation coverage shall be continued as provided in this Article 10.

10.2 **COBRA Continuation Coverage for Terminated Participants**. A covered Active Employee Participant may elect COBRA continuation coverage, at his/her own expense, if his participation under this Plan would terminate as a result of one of the following Qualifying Events: an Employee's termination of employment or reduction of hours with an Employer.

10.3 **COBRA Continuation Coverage for Dependents**. A Qualified Dependent may elect COBRA continuation coverage, at his/her own expense, if his/her participation under this Plan would terminate as a result of a Qualifying Event.

10.4 **Period of Continuation Coverage for Covered Participants.** A covered Active Employee Participant who qualifies for COBRA continuation coverage as a result of a Participant's termination of employment or reduction in hours of employment described in Subsection 10.2 may elect COBRA continuation coverage for up to 18 months measured from the date of the Qualifying Event.

Coverage under this Subsection 10.4 may not continue beyond the:

(1) date on which the Active Employee Participant's Employer ceases to maintain this Plan;

(2) last day of the month for which premium payments have been made with respect to this Plan, if the individual fails to make premium payments on time, in accordance with Subsection 10.6;

(3) date the covered Active Employee Participant becomes entitled to Medicare; or

(4) date the covered Participant is no longer subject to a pre-existing condition exclusion under the Participant's other coverage or new employer plan for the type of coverage available under the COBRA eligible program for which the COBRA election was made.

10.5 Period of COBRA Continuation Coverage for Dependents. If a Qualified Dependent elects COBRA continuation coverage under a COBRA eligible program as a result of the an Active Employee Participant's termination of employment as described in Subsection 10.2, continuation coverage may be continued for up to 18 months measured from the date of the Qualifying Event. COBRA continuation coverage for all other Qualifying Events may continue for up to 36 months.

Continuation coverage under this Subsection 10.5 with respect to a COBRA eligible program may not continue beyond the date:

(1) on which premium payments have not been made, in accordance with Subsection 10.6 below;

(2) the Qualified Dependent becomes entitled to Medicare;

(3) on which the Employer ceases to maintain this Plan; or

(4) the Qualified Dependent is no longer subject to a pre-existing condition exclusion under the Participant's other coverage or new employer plan for the type of coverage available under this Plan.

10.6 Contribution Requirements for COBRA Continuation Coverage. Covered Participants and Qualified Dependents who elect COBRA continuation coverage as a result of a Qualifying Event will be required to pay continuation coverage payments. Continuation coverage payments are the payments required for COBRA continuation coverage that is an amount equal to a reasonable estimate of the cost to this Plan of providing coverage for all covered Participants at the time of the Qualifying Event plus a 2% administrative expense. In the case of a disabled individual who receives an additional 11-month extended coverage under COBRA, the Employer may assess up to 150% of the cost for this extended coverage period. Such cost shall be determined on an actuarial basis and take into account such factors as the Secretary of the Treasury may prescribe in regulations.

Covered Participants and Qualified Dependents must make the continuation coverage payment prior to the first day of the month in which such coverage will take effect. However, a covered Participant or Qualified Dependent has 45 days from the date of an affirmative election to pay the continuation coverage payment for the first month's payment and the cost for the period between the date medical coverage would otherwise have terminated due to the Qualifying Event and the date the covered Participant and/or Qualified Dependent actually elects COBRA continuation coverage.

The covered Participant and/or Qualified Dependent shall have a 30-day grace period to make the continuation coverage payments due thereafter. Continuation coverage payments must be postmarked on or before the completion of the 30-day grace period. If continuation coverage payments are not made on a timely basis, COBRA continuation coverage will terminate as of the last day of the month for which timely premiums were made. The 30-day grace period shall not apply to the 45-day period for the first month's payment of COBRA premiums as set out in the section above.

If payment is received that is significantly less than the required continuation coverage payment, then continuation coverage will terminate as of the last day of the month for which premiums were paid. A payment is considered significantly less than the amount due if it is greater than the lesser of $50 or 10% of the required continuation coverage payment. Upon receipt of a continuation coverage payment that is insignificantly less than the required amount, the Plan Administrator must notify the covered Participant or Qualified Dependent of the amount of the shortfall and provide them with an additional 30-day grace period from the date of the notice for this payment only.

10.7 **Limitation on Participant's Rights to COBRA Continuation Coverage**.

(1) If a Qualified Dependent loses, or will lose medical coverage under this Plan as a result of divorce, legal separation, entitlement to Medicare, or ceasing to be a Dependent, such Qualified Dependent is responsible for notifying the Plan Administrator in writing within 60 days of the Qualifying Event. Failure to make timely notification will terminate the Qualified Dependent's rights to COBRA continuation coverage under this Article.

(2) A Participant must complete and return the required enrollment materials within 60 days from the later of (a) the date of loss of coverage, or (b) the date the Plan Administrator sends notice of eligibility for COBRA continuation coverage. Failure to enroll for COBRA continuation coverage during this 60-day period will terminate all rights to COBRA continuation coverage under this Article. An affirmative election of COBRA continuation coverage by a Participant or his/her spouse shall be deemed to be an election for that Participant's Dependent(s) who would otherwise lose coverage under the Plan.

10.8 **Subsequent Qualifying Event** . If a second Qualifying Event occurs during an 18-month extension explained above, coverage may be continued for a maximum of 36 months from the date of the first Qualifying Event. In the event the Dependent loses coverage due to a Qualifying Event and after such date the Participant becomes entitled to Medicare, the Dependent shall have available up to 36 months of coverage measured from the date of the Qualifying Event that causes the loss of coverage. If the Participant was entitled to Medicare prior to the Qualifying Event, the Dependent shall have up to 36 months of coverage measured from the date of entitlement to Medicare.

10.9 **Extension of COBRA Continuation Period for Disabled Individuals** . The period of continuation shall be extended to 29 months in total (measured from the date of the Qualifying Event) in the event the individual is disabled as determined by the Social Security laws within 60 days of the Qualifying Event. The individual must provide evidence to the Plan Administrator of such Social Security determination prior to the earlier of 60 days after the date of the Social Security determination, or the expiration of the initial 18 months of COBRA continuation coverage. In such event, the Employer may charge the individual up to 150% of the COBRA cost of the coverage.

ARTICLE 11 PRIVACY OF MEDICAL INFORMATION

11.1 **Definitions** . For purposes of this Article 11, the following defined terms shall have the meaning assigned to such terms in this subsection:

(1) "Business Associate" shall have the meaning assigned to such phrase at 45 C.F.R. § 160.103;

(2) "Health Care Operations" shall have the meaning assigned to such phrase at 45 C.F.R. § 164.501;

(3) "HIPAA" shall mean Parts 160 ("General Administrative Requirements") and 164 ("Security and Privacy") of Title 45 of the Code of Federal Regulations as such parts are amended from time to time;

(4) "Payment" shall have the meaning assigned to such phrase at 45 C.F.R § 160.103;

(5) "Protected Health Information" or "PHI" shall have the meaning assigned to such phrase at 45 C.F.R. § 160.103; and

(6) "Treatment" shall have the meaning assigned to such phrase at 45 C.F.R. § 164.501.

11.2 **Privacy Provisions Relating to Protected Health Information ("PHI")** . The Plan and its Business Associates shall use and disclose PHI to the extent permitted by, and in accordance with, HIPAA, for purposes of providing benefits under the Plan and for purposes of administering the plan, including, by way of illustration and not by way of limitation, for purposes of Treatment, Payment, and Health Care Operations.

11.3 **Disclosure of De-Identified or Summary Health Information** . The HIPAA Plan, or, with respect to the HIPAA Plan, a health insurance issuer, may disclose summary health information (as that phrase is defined at 45 C.F.R. § 160.5049a)) to the Plan Sponsor of the HIPAA Plan (and its affiliates) if such entity requests such information for the purpose of:

(1) Obtaining premium bids from health plans for providing health insurance coverage under the HIPAA Plan;

(2) Modifying, amending or terminating the group health benefits under the HIPAA Plan.

In addition, the HIPAA Plan or a health insurance insurer with respect to the HIPAA Plan may disclose to the Plan Sponsor of the HIPAA Plan (or its affiliates) information on whether

an individual is participating in the group health benefits provided by the HIPAA Plan or is enrolled in, or has ceased enrollment with health insurance offered by the HIPAA Plan.

11.4 **The HIPAA Plan Will Use and Disclose PHI as Required by Law or as Permitted by the Authorization of the Participant or Beneficiary** .

Upon submission of an authorization signed by a Participant, beneficiary, subscriber or personal representative that meets HIPAA requirements, the HIPAA Plan will disclose PHI.

In addition, PHI will be disclosed to the extent permitted or required by law, without the submission of an authorization form.

11.5 **Disclosure of PHI to the Plan Sponsor .** The HIPAA Plan will disclose information to the Plan Sponsor only upon certification from the Plan Sponsor that the HIPAA Plan documents have been amended to incorporate the assurances provided below.

The Plan Sponsor agrees to:

(1) not use or further disclose PHI other than as permitted or required by the HIPAA Plan document or as required by law;

(2) ensure that any affiliates or agents, including a subcontractor, to whom the Plan Sponsor provides PHI received from the HIPAA Plan, agrees to the same restrictions and conditions that apply to the Plan Sponsor with respect to such PHI;

(3) not use or disclose PHI for employment-related actions and decisions unless authorized by the individual to whom the PHI relates;

(4) not use or disclose PHI in connection with any other benefits or employee benefit plan of the Plan Sponsor or its affiliates unless permitted by the Plan or authorized by an individual to whom the PHI relates;

(5) report to the Plan any PHI use or disclosure that is inconsistent with the uses or disclosures provided for of which it becomes aware;

(6) make PHI available to an individual in accordance with HIPAA's access rules;

(7) make PHI available for amendment and incorporate any amendments to PHI in accordance with HIPAA;

(8) make available the information required to provide an accounting of disclosures;

(9) make internal practices, books and records relating to the use and disclosure of PHI received from the HIPAA Plan available to the Secretary of the United States Department of Health and Human Resources for purposes of determining the Plan's compliance with HIPAA; and

(10) if feasible, return or destroy all PHI received from the HIPAA Plan that the Plan Sponsor still maintains in any form, and retain no copies of such PHI when no longer needed for the purpose for which disclosure was made (or if return or destruction is not feasible, limit further uses and disclosures to those purposes that make the return or destruction infeasible).

11.6 **Separation Between the Plan Sponsor and the HIPAA Plan .** In accordance with HIPAA, only the following employees and Business Associate personnel shall be given access to PHI:

(1) employees of the AT&T Benefits and/or AT&T Executive Compensation organizations responsible for administering group health plan benefits under the HIPAA Plan, including those employees whose functions in the regular course of business include Payment, Health Care Operations or other matters pertaining to the health care programs under a HIPAA Plan;

(2) employees who supervise the work of the employees described in (1), above;

(3) support personnel, including other employees outside of the AT&T Benefits or AT&T Executive Compensation organizations whose duties require them to rule on health plan-related appeals or perform functions concerning the HIPAA Plan;

(4) investigatory personnel to the limited extent that such PHI is necessary to conduct investigations of possible fraud;

(5) outside and in-house legal counsel providing counsel to the HIPAA Plan;

(6) consultants providing advice concerning the administration of the HIPAA Plan; and

(7) the employees of Business Associates charged with providing services to the HIPAA Plan.

The persons identified above shall have access to and use PHI to the extent that such access and use is necessary for the administration of group health benefits under a HIPAA Plan. If these persons do not comply with this Plan document, the Plan Sponsor shall provide a mechanism for resolving issues of noncompliance, including disciplinary sanctions.

11.7 <u>Enforcement</u> .

Enforcement of this Article 11 shall be as provided for by HIPAA. In particular, participants and beneficiaries are not authorized to sue with regard to purported breaches of this Article 11 except as explicitly permitted by HIPAA.

ARTICLE 12 CLAIM AND APPEAL PROCESS

12.1 **<u>Claims for Benefits under the Plan</u>** . – See Appendix B.

12.2 Claims Related to Basic Eligibility for Coverage under the Plan and Claims Related to the Article 8 Loyalty Conditions .

(a) Claims. A person who believes that he or she is being denied a benefit to which he or she is entitled under this Plan (hereinafter referred to as a "Claimant") based on a claim for basic eligibility for coverage under the Plan or a claim related to the Article 8 Loyalty Conditions may file a written request for such benefit with the Executive Compensation Administration Department, setting forth his or her claim. The request must be addressed to the AT&T Executive Compensation Administration Department at its then principal place of business.

(b) Claim Decision. Upon receipt of a claim, the AT&T Executive Compensation Administration Department shall review the claim and provide the Claimant with a written notice of its decision within a reasonable period of time, not to exceed ninety (90) days, after the claim is received. If the AT&T Executive Compensation Administration Department determines that special circumstances require an extension of time beyond the initial ninety (90)- day claim review period, the AT&T Executive Compensation Administration Department shall notify the Claimant in writing within the initial ninety (90)-day period and explain the special circumstances that require the extension and state the date by which the AT&T Executive Compensation Administration Department expects to render its decision on the claim. If this notice is provided, the AT&T Executive Compensation Administration Department may take up to an additional ninety (90) days (for a total of one hundred eighty (180) days after receipt of the claim) to render its decision on the claim.

If the claim is denied by the AT&T Executive Compensation Administration Department, in whole or in part, the AT&T Executive Compensation Administration Department shall provide a written decision using language calculated to be understood by the Claimant and setting forth: (i) the specific reason or reasons for such denial; (ii) specific references to pertinent provisions of this Plan on which such denial is based; (iii) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or such information is necessary; (iv) a description of the Plan's procedures for review of denied claims and the steps to be taken if the Claimant wishes to submit the claim for review; (v) the time limits for requesting a review of a denied claim under this section and for conducting the review under this section ; and (vi) a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA if the claim is denied following review under this section.

(c) Request for Review. Within sixty (60) days after the receipt by the Claimant of the written decision on the claim provided for in this section, the Claimant may request in writing that the Plan Administrator review the determination of the AT&T Executive Compensation Administration Department. Such request must be addressed to the Plan Administrator at the address provided in the written decision regarding the claim. To assist the Claimant in deciding whether to request a review of a denied claim or in preparing a request for review of a denied claim, a Claimant shall be provided, upon written request to the Plan Administrator and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claim. The Claimant or his or her duly authorized representative may, but need not, submit a statement of the issues and comments in writing, as well as other documents, records or other information relating to the claim for consideration by the Committee. If the Claimant does not request a review by the Plan Administrator of the AT&T Executive Compensation Administration Department's decision within such sixty (60)-day period, the Claimant shall be barred and estopped from challenging the determination of the AT&T Executive Compensation Administration Department.

(d) Review of Decision. Within sixty (60) days after the Plan Administrator's receipt of a request for review, the Plan Administrator will review the decision of the AT&T Executive Compensation Administration Department. If the Plan Administrator determines that special circumstances require an extension of time beyond the initial sixty (60)-day review period, the Plan Administrator shall notify the Claimant in writing within the initial sixty (60)-day period and explain the special circumstances that require the extension and state the date by which the Plan Administrator expects to render its decision on the review of the claim. If this notice is provided, the Plan Administrator may take up to an additional sixty (60) days (for a total of one hundred twenty (120) days after receipt of the request for review) to render its decision on the review of the claim.

During its review of the claim, the Plan Administrator shall:

(1) Take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial review of the claim conducted pursuant to this section;

(2) Follow reasonable procedures to verify that its benefit determination is made in accordance with the applicable Plan documents; and

(3) Follow reasonable procedures to ensure that the applicable Plan provisions are applied to the Participant to whom the claim relates in a manner consistent with how such provisions have been applied to other similarly-situated Participants.

After considering all materials presented by the Claimant, the Plan Administrator will render a decision, written in a manner designed to be understood by the Claimant. If the Plan Administrator denies the claim on review, the written decision will include (i) the specific reasons for the decision; (ii) specific references to the pertinent provisions of this Plan on which the decision is based; (iii) a statement that the Claimant is entitled to receive, upon request to the Plan Administrator and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim; and (iv) a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA.

In any case, a Participant or Beneficiary may have further rights under ERISA. The Plan provisions require that Participants or Beneficiary pursue all claim and appeal rights described in this section before they seek any other legal recourse regarding claims for benefits.

Appendix A

AT&T Health Plan

2018 Monthly Contributions, Annual Deductible, Coinsurance Percentages and Annual Out-of-Pocket Maximum

Active Participants

Monthly Contributions	Individual - $152 Individual + Spouse - $187 Individual + 1 or More Children - $152 Individual + Spouse + 1 or More Children - $361
Annual Deductible	Individual - $1,600 Individual + 1 or More - $3,200
Coinsurance Percentage	10% after the Annual Deductible is met. Coinsurance applies until the Annual Out-of-Pocket Maximum is reached.
Annual Out-of-Pocket Maximum	Individual - $5,500 Individual + 1 or More - $11,000 (individual amount of $5,500)

Retired Participants – Monthly Contributions

Retired Prior to August 31, 1992 and Surviving Spouses	Individual - $203 Individual + Spouse - $203 Individual + 2 or More - $203	
Retired on or after September 1, 1992 and Surviving Spouses *Note: The Plan Administrator shall maintain records governing whether a Retired Participant is in Class A, B, C or D.*	Class A	Individual - $556 Individual + Spouse - $908 Individual + 1 or More Children - $556 Individual + Spouse + 1 or More Children - $782
	Class B	Individual - $680 Individual + Spouse - $1,110 Individual + 1 or More Children - $680 Individual + Spouse + 1 or More Children - $958
	Class C	Individual - $859 Individual + Spouse - $1,387 Individual + 1 or More Children - $859 Individual + Spouse + 1 or More Children - $1,209
	Class D	Individual - $1,046 Individual + Spouse - $2,076 Individual + 1 or More Children - $1,046 Individual + Spouse + 1 or More Children - $1,770

COBRA Continuation Coverage – Monthly Contributions

Active COBRA	Individual - $1,793 Individual + Spouse - $3,674 Individual + 1 or More Children - $2,959 Individual + Spouse + 1 or More Children - $5,089
Retired Prior to August 31, 1992 and Surviving Spouses COBRA	Individual - $1,550 Individual + 1 - $3,176 Individual + 2 or More - $3,333
Retired on or after September 1, 1992 and Surviving Spouses COBRA	Individual - $1,501 Individual + Spouse - $3,186 Individual + 1 or More Children - $2,446 Individual + Spouse + 1 or More Children - $4,400

Appendix B

Claims Procedure Applicable to Claims for Benefits under the Plan

Claim for Benefits Procedures

You, your covered dependents or a duly authorized person has the right under ERISA and the Plan to file a written claim for benefits under the Plan. The following describes the procedures used by the Plan to process claims for benefits, along with your rights and responsibilities. These procedures were designed to comply with the rules of the Department of Labor (DOL) concerning claims for Benefits. It is important that you follow these procedures to make sure that you receive full benefits under the Plan.

The Plan is an ERISA plan, and you may file suit in federal court if you are denied benefits you believe are due you under the Plan. However, you must complete the full claims and appeal process offered under the Plan before filing a lawsuit.

Filing a Claim for Benefits

When filing a claim for benefits, you should file the claim with the Claims Administrator. The Claims Administrator is the third party to whom claims and appeal responsibility has been delegated as permitted under Section 9.1 of the Plan.

The following are not considered claims for benefits under the Plan:

- A claim related to basic eligibility for coverage under the Plan (See Section 12.2 of the Plan).
- A claim related to the Loyalty Conditions contained in Article 8 of the Plan (See Section 12.2 of the Plan).

Claim Filing Limits

A request for payment of benefits must be submitted within one year after the date of service or the date the prescription was provided.

Required Information

When you request payment of benefits from the Plan, you must provide certain information as requested by the Claims Administrator.

Benefit Determinations

Post-Service Claims

Post-service claims are those claims that are filed for payment of benefits after medical care has been received. If your post-service claim is denied, you will receive a written notice from the Claims Administrator within 30 days of receipt of the claim, as long as all needed information identified above and any other information that the Claims Administrator may request in connection with services rendered to you was provided with the claim. The Claims Administrator will notify you within this 30-day period if additional information is needed to process the Claim and may request a one-time extension not longer than 15 days and pend your Claim until all information is received.

Once notified of the extension, you then have 45 days to provide this information. If all of the needed information is received within the 45-day time frame and the claim is denied, the claims Administrator will notify you of the denial within 15 days after the information is received. If you don't provide the needed information within the 45-day period, your claim will be denied.

A denial notice will explain the reason for denial, refer to the part of the Plan on which the denial is based, and provide the claim appeal procedures.

Pre-Service Claims

Pre-service claims are those claims that require notification or approval prior to receiving medical care or require notification within a specified time period after service begins as required under the Plan provisions. If your claim is a pre-service claim and is submitted properly with all needed information, you will receive written notice of the claim decision from the Claims Administrator within 15 days of receipt of the claim. If you file a pre-service claim improperly, the Claims Administrator will notify you of the improper filing and how to correct it within five days after the pre-service claim is received. If additional information is needed to process the pre-service claim, the Claims Administrator will notify you of the information needed within 15 days after the claim was received and may request a one-time extension not longer than 15 days and pend your claim until all information is received. Once notified of the extension, you then have 45 days to provide this information. If all of the needed information is received within the 45-day time frame, the Claims Administrator will notify you of the determination within 15 days after the information is received. If you don't provide the needed information within the 45-day period, your claim will be denied. A denial notice will explain the reason for denial, refer to the part of the Plan on which the denial is based, and provide the claim appeal procedures.

Urgent Care Claims That Require Immediate Action
Urgent care claims are those claims that require notification or approval prior to receiving medical care in which a delay in treatment could seriously jeopardize your life or health or the ability to regain maximum function or, in the opinion of a physician with knowledge of your medical condition, could cause severe pain. In these situations:

- You will receive notice of the benefit determination in writing or electronically within 72 hours after the Claims Administrator receives all necessary information, taking into account the seriousness of your condition.

- Notice of denial may be oral with a written or electronic confirmation to follow within three days.

If you filed an urgent claim improperly, the Claims Administrator will notify you of the improper filing and how to correct it within 24 hours after the urgent claim was received. If additional information is needed to process the claim, the Claims Administrator will notify you of the information needed within 24 hours after the claim was received. You then have 48 hours to provide the requested information.

You will be notified of a determination no later than 48 hours after either:

- The Claims Administrator's receipt of the requested information.

- The end of the 48-hour period within which you were to provide the additional information, if the information is not received within that time.

A denial notice will explain the reason for denial, refer to the part of the Plan on which the denial is based, and provide the claim appeal procedures.

Concurrent Care Claims
If an ongoing course of treatment was previously approved for a specific period of time or number of treatments, and your request to extend the treatment is an urgent care claim as defined above, your request will be decided within 24 hours, provided your request is made at least 24 hours prior to the end of the approved treatment. The Claims Administrator will make a determination on your request for the extended treatment within 24 hours from receipt of your request.

If your request for extended treatment is not made at least 24 hours prior to the end of the approved treatment, the request will be treated as an urgent care claim and decided according to the time frames described above. If an ongoing course of treatment was previously approved for a specific period of time or number of treatments, and you request to extend treatment in a non-urgent circumstance, your request will be considered a new claim and decided according to post-service or pre-service timeframes, whichever applies.

How to Appeal a Claim Decision

If you disagree with a pre-service or post-service claim determination after following the above steps, you can contact the applicable Claims Administrator in writing to formally request an appeal. Your first appeal request must be submitted to the Claims Administrator within 180 days after you receive the Claim denial.

Appeal Process

A qualified individual who was not involved in the decision being appealed will be appointed to decide the appeal. The Claims Administrator may consult with, or seek the participation of, medical experts as part of the appeal resolution process. You must consent to this referral and the sharing of pertinent medical claim information. Upon written request and free of charge you have the right to reasonable access to and copies of all documents, records and other information relevant to your claim for benefits.

Appeals Determinations

Pre-Service and Post-Service Claim Appeals

You will be provided written or electronic notification of the decision on your appeal as follows:

- For appeals of pre-service claims, the first-level appeal will be conducted and you will be notified by the Claims Administrator of the decision within 15 days from receipt of a request for appeal of a denied Claim. The second-level appeal will be conducted and you will be notified by the Claims Administrator of the decision within 15 days from receipt of a request for review of the first-level appeal decision.

- For appeals of post-service claims, the first-level appeal will be conducted and you will be notified by the Claims Administrator of the decision within 30 days from receipt of a request for appeal of a denied claim. The second-level appeal will be conducted and you will be notified by the Claims Administrator of the decision within 30 days from receipt of a request for review of the first-level appeal decision.

- For procedures associated with urgent Claims, refer to the following "Urgent Claim Appeals That Require Immediate Action" section.

- If you are not satisfied with the first-level appeal decision of the Claims Administrator, you have the right to request a second-level appeal from the Claims Administrator. Your second level appeal request must be submitted to the Claims Administrator in writing within 60 days from receipt of the first-level appeal decision.

- For pre-service and post-service claim appeals, the Plan Administrator has delegated to the Claims Administrator the exclusive right to interpret and administer the provisions of the Plan. The Claims Administrator's decisions are conclusive and binding.

Please note that the Claims Administrator's decision is based only on whether or not benefits are available under the Plan for the proposed treatment or procedure. The determination as to whether the pending health service is necessary or appropriate is between you and your physician.

Urgent Claim Appeals That Require Immediate Action

Your appeal may require immediate action if a delay in treatment could significantly increase the risk to your health or the ability to regain maximum function or cause severe pain.

In these urgent situations, the appeal does not need to be submitted in writing. You or your physician should call the Claims Administrator as soon as possible. The Claims Administrator will provide you with a written or electronic determination within 72 hours following receipt by the Claims Administrator of your request for review of the determination taking into account the seriousness of your condition.

For urgent claim appeals, the Plan Administrator has delegated to the applicable Claims Administrator the exclusive right to interpret and administer the provisions of the Plan. The Claims Administrator's decisions are conclusive and binding.

In any case, a Participant or Beneficiary may have further rights under ERISA. The Plan provisions require that Participants or Beneficiary pursue and exhaust all claim and appeal rights described in this section before they seek any other legal recourse regarding claims for benefits.

APPENDIX C

DISCLOSURE OF GRANDFATHERED STATUS

MODEL NOTICE

AT&T, as plan sponsor, believes this Plan is a "grandfathered health plan" under the Patient Protection and Affordable Care Act (the "Affordable Care Act"). As permitted by the Affordable Care Act, a grandfathered health plan can preserve certain basic health coverage that was already in effect when that law was enacted. Being a grandfathered health plan means that the plan may not include certain consumer protections of the Affordable Care Act that apply to other plans, for example, the requirement for the provision of preventive health services without any cost sharing. However, grandfathered health plans must comply with certain other consumer protections of the Affordable Care Act, for example, the elimination of lifetime limits on benefits.

Questions regarding which protections apply and which protections do not apply to a grandfathered health plan and what might cause a plan to change from grandfathered health plan status can be directed to the plan administrator at P.O. Box 30558, Salt Lake City, Utah 84130-0558. You may also contact the Employee Benefits Security Administration, U.S. Department of labor at 1-866-444-3272 or www.dol.gov/ebsa/healthreform. This website has a table summarizing which protections do and do not apply to grandfathered health plans.

APPENDIX D

Notwithstanding the provisions and limitations of Section 2.16 of the Plan, the following Officers shall be included in the term "Eligible Employee" and shall be eligible to participate in the Plan (along with any Dependents) subject to all applicable provisions of the Plan:

Name	**Title**	**Effective Date of Participation**
David McAtee	Senior Executive Vice President & General Counsel	February 1, 2018

EXHIBIT 12

AT&T INC.
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
Dollars in Millions

	Year Ended December 31,				
	2017	**2016**	**2015**	**2014**	**2013**
Earnings:					
Income from continuing operations before income taxes	$ 15,139	$ 19,812	$ 20,692	$ 10,355	$ 28,050
Equity in net (income) loss of affiliates included above	128	(98)	(79)	(175)	(642)
Fixed charges	8,854	7,296	6,592	5,295	5,452
Distributed income of equity affiliates	46	61	30	148	318
Interest capitalized	(903)	(892)	(797)	(234)	(284)
Earnings, as adjusted	$ 23,264	$ 26,179	$ 26,438	$ 15,389	$ 32,894
Fixed Charges:					
Interest expense	$ 6,300	$ 4,910	$ 4,120	$ 3,613	$ 3,940
Interest capitalized	903	892	797	234	284
Portion of rental expense representative of interest factor	1,651	1,494	1,675	1,448	1,228
Fixed Charges	$ 8,854	$ 7,296	$ 6,592	$ 5,295	$ 5,452
Ratio of Earnings to Fixed Charges	2.63	3.59	4.01	2.91	6.03

Selected Financial and Operating Data
Dollars in millions except per share amounts

At December 31 and for the year ended:	**2017**	2016	2015	2014	2013
Financial Data					
Operating revenues	**$ 160,546**	$ 163,786	$ 146,801	$ 132,447	$ 128,752
Operating expenses	**$ 139,597**	$ 139,439	$ 122,016	$ 120,235	$ 98,000
Operating income	**$ 20,949**	$ 24,347	$ 24,785	$ 12,212	$ 30,752
Interest expense	**$ 6,300**	$ 4,910	$ 4,120	$ 3,613	$ 3,940
Equity in net income (loss) of affiliates	**$ (128)**	$ 98	$ 79	$ 175	$ 642
Other income (expense) - net	**$ 618**	$ 277	$ (52)	$ 1,581	$ 596
Income tax (benefit) expense	**$ (14,708)**	$ 6,479	$ 7,005	$ 3,619	$ 9,328
Net Income	**$ 29,847**	$ 13,333	$ 13,687	$ 6,736	$ 18,722
Less: Net Income Attributable to Noncontrolling Interest	**$ (397)**	$ (357)	$ (342)	$ (294)	$ (304)
Net Income Attributable to AT&T	**$ 29,450**	$ 12,976	$ 13,345	$ 6,442	$ 18,418
Earnings Per Common Share:					
Net Income Attributable to AT&T	**$ 4.77**	$ 2.10	$ 2.37	$ 1.24	$ 3.42
Earnings Per Common Share - Assuming Dilution:					
Net Income Attributable to AT&T	**$ 4.76**	$ 2.10	$ 2.37	$ 1.24	$ 3.42
Cash and cash equivalents	**$ 50,498**	$ 5,788	$ 5,121	$ 8,603	$ 3,339
Total assets	**$ 444,097**	$ 403,821	$ 402,672	$ 296,834	$ 281,423
Long-term debt	**$ 125,972**	$ 113,681	$ 118,515	$ 75,778	$ 69,091
Total debt	**$ 164,346**	$ 123,513	$ 126,151	$ 81,834	$ 74,589
Capital expenditures	**$ 21,550**	$ 22,408	$ 20,015	$ 21,433	$ 21,228
Dividends declared per common share	**$ 1.97**	$ 1.93	$ 1.89	$ 1.85	$ 1.81
Book value per common share	**$ 23.13**	$ 20.22	$ 20.12	$ 17.40	$ 18.10
Ratio of earnings to fixed charges	**2.63**	3.59	4.01	2.91	6.03
Debt ratio	**53.6%**	49.9%	50.5%	47.5%	44.1%
Net debt ratio	**37.2%**	47.5%	48.5%	42.6%	42.1%
Weighted-average common shares outstanding (000,000)	**6,164**	6,168	5,628	5,205	5,368
Weighted-average common shares outstanding with dilution (000,000)	**6,183**	6,189	5,646	5,221	5,385
End of period common shares outstanding (000,000)	**6,139**	6,139	6,145	5,187	5,226
Operating Data					
Total wireless customers (000)	**156,666**	146,832	137,324	120,554	110,376
Video connections (000) [1]	**38,899**	38,015	37,934	5,943	5,460
In-region network access lines in service (000)	**11,753**	13,986	16,670	19,896	24,639
Broadband connections (000)	**15,719**	15,605	15,778	16,028	16,425
Number of employees	**254,000**	268,540	281,450	243,620	243,360

[1] Prior period amounts are restated to conform to current-period reporting methodology.

Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share and per subscriber amounts

RESULTS OF OPERATIONS

For ease of reading, AT&T Inc. is referred to as "we," "AT&T" or the "Company" throughout this document, and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate in the communications and digital entertainment services industry. Our subsidiaries and affiliates provide services and equipment that deliver voice, video and broadband services both domestically and internationally. During 2015, we completed our acquisitions of DIRECTV and wireless properties in Mexico. The following discussion of changes in our operating revenues and expenses is affected by the timing of these acquisitions. In accordance with U.S. generally accepted accounting principles (GAAP), our 2015 results include 160 days of DIRECTV-related operations compared with a full year in 2016 and 2017. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes. A reference to a "Note" in this section refers to the accompanying Notes to Consolidated Financial Statements. In the tables throughout this section, percentage increases and decreases that are not considered meaningful are denoted with a dash. Certain amounts have been reclassified to conform to the current period's presentation.

Consolidated Results Our financial results are summarized in the table below. We then discuss factors affecting our overall results for the past three years. These factors are discussed in more detail in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2018 in the "Operating Environment and Trends of the Business" section.

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Operating revenues					
Service	**$ 145,597**	$ 148,884	$ 131,677	**(2.2)%**	13.1%
Equipment	**14,949**	14,902	15,124	**0.3**	(1.5)
Total Operating Revenues	**160,546**	163,786	146,801	**(2.0)**	11.6
Operating expenses					
Cost of services and sales					
Equipment	**18,709**	18,757	19,268	**(0.3)**	(2.7)
Broadcast, programming and operations	**21,159**	19,851	11,996	**6.6**	65.5
Other cost of services	**37,511**	38,276	35,782	**(2.0)**	7.0
Selling, general and administrative	**34,917**	36,347	32,919	**(3.9)**	10.4
Asset abandonments and impairments	**2,914**	361	35	**-**	-
Depreciation and amortization	**24,387**	25,847	22,016	**(5.6)**	17.4
Total Operating Expenses	**139,597**	139,439	122,016	**0.1**	14.3
Operating Income	**20,949**	24,347	24,785	**(14.0)**	(1.8)
Interest expense	**6,300**	4,910	4,120	**28.3**	19.2
Equity in net income (loss) of affiliates	**(128)**	98	79	**-**	24.1
Other income (expense) – net	**618**	277	(52)	**-**	-
Income Before Income Taxes	**15,139**	19,812	20,692	**(23.6)**	(4.3)
Net Income	**29,847**	13,333	13,687	**-**	(2.6)
Net Income Attributable to AT&T	**$ 29,450**	$ 12,976	$ 13,345	**-%**	(2.8)%

OVERVIEW

Operating revenues decreased $3,240, or 2.0%, in 2017 and increased $16,985, or 11.6%, in 2016.

Service revenues decreased $3,287, or 2.2%, in 2017 and increased $17,207, or 13.1%, in 2016. The decrease in 2017 was primarily due to continued declines in legacy wireline voice and data products and lower wireless service revenues reflecting increased adoption of unlimited plans. Additionally, we waived $243 in service revenues for customers in areas affected by natural disasters during 2017. These decreases were partially offset by increased revenues from video and strategic business services. The increase in 2016 was primarily due to our 2015 acquisition of DIRECTV and increases in IP broadband and fixed strategic service revenues, partially offset by declines in our legacy wireline voice and data products and lower wireless service revenues from competitive offerings that entitle customers to lower monthly service rates.

In 2018, we will continue to see some pressure from legacy revenues and some early challenges with wireless service revenues until we lap the first year of unlimited offerings, and then move toward improvements in wireless service revenues.

Equipment revenues increased $47, or 0.3%, in 2017 and decreased $222, or 1.5%, in 2016. The increase in 2017 was primarily due to increased sales volume in Mexico offset by declines in U.S. wireless sales. The decline in 2016 reflects fewer domestic wireless handset sales and additional promotional offers, partially offset by the sale of higher-priced devices. Equipment revenue is becoming increasingly unpredictable as many customers are bringing their own devices or choosing to upgrade devices less frequently.

Operating expenses increased $158, or 0.1%, in 2017 and $17,423, or 14.3%, in 2016.

Equipment expenses decreased $48, or 0.3%, in 2017 and $511, or 2.7%, in 2016. The decrease in 2017 was driven by lower customer premises equipment contracts when compared to the prior year, which was largely offset by increased wireless device sales, despite pressure from customers upgrading less frequently. More promotional offers, and the sale of higher-priced devices during the fourth quarter of 2017, contributed to higher domestic wireless equipment costs, and higher sales volume from our Mexico wireless customers also offset expense declines. Expense decreases in 2016 were primarily driven by lower domestic wireless handset sales, partially offset by increased sales volumes in Mexico.

Broadcast, programming and operations expenses increased $1,308, or 6.6%, in 2017 and $7,855, or 65.5%, in 2016. The increase in 2017 reflected annual content cost increases and additional programming costs. The increase in 2016 was due to our acquisition of DIRECTV.

Other cost of services expenses decreased $765, or 2.0%, in 2017 and increased $2,494, or 7.0%, in 2016. The decrease in 2017 reflected our continued focus on cost management and the utilization of automation and digitalization where appropriate. Expense declines also reflect lower traffic compensation and wireless interconnect costs, partially offset by an increase in amortization of deferred customer fulfillment costs.

The expense increase in 2016 was primarily due to our acquisition of DIRECTV and an increase in noncash financing-related costs associated with our pension and postretirement benefits. The expense increase also reflects a $1,185 change in our annual pension and postemployment benefit actuarial adjustment, which consisted of a loss in 2016 and a gain in 2015. These increases were partially offset by lower comparative network rationalization charges, net expenses associated with our deferral and amortization of customer fulfillment costs, and network and access charges.

Selling, general and administrative expenses decreased $1,430, or 3.9%, in 2017 and increased $3,428, or 10.4%, in 2016. The decrease in 2017 was attributable to our disciplined cost management, lower selling and commission costs from reduced volumes and lower marketing costs. These decreases were partially offset by lower gains on wireless spectrum transactions during 2017 than in 2016, costs arising from natural disasters and a special bonus paid to employees upon enactment of U.S. corporate tax reform.

The increase in 2016 was primarily due to our acquisitions in 2015 and increased advertising activity. Expenses also include an increase of $1,991 as a result of recording an actuarial loss in 2016 and an actuarial gain in 2015. These increases were offset by noncash gains of $714 on wireless spectrum transactions, lower wireless commissions and reduced employee separation costs.

Asset abandonments and impairments expense increased $2,553 in 2017 and $326 in 2016. The increase in 2017 was primarily due to a fourth-quarter 2017 noncash charge of $2,883 resulting from the abandonment of certain copper assets that will not be necessary to support future network activity due to fiber deployment plans in particular markets. During 2016, we recorded additional noncash charges for the impairment of wireless and other assets, when compared to 2015. (See Note 6)

Depreciation and amortization expense decreased $1,460, or 5.6%, in 2017 and increased $3,831, or 17.4%, in 2016. Depreciation expense decreased $895, or 4.3%, in 2017. The decreases in 2017 were primarily due to our fourth-quarter 2016 change in estimated useful lives and salvage values of certain assets associated with our transition to an IP-based network, which accounted for $845 of the decrease. Also contributing to lower depreciation expenses were network assets becoming fully depreciated. These decreases were partially offset by increases resulting from ongoing capital spending for upgrades and expansion.

Depreciation expense in 2016 increased $1,336, or 6.9%, primarily due to the acquisition of DIRECTV and ongoing capital investment for network upgrades. The increases were partially offset by a $462 decrease associated with our 2016 change in the estimated useful lives and salvage values of certain assets associated with our transition to an IP-based network.

Amortization expense decreased $565, or 10.9%, in 2017 and increased $2,495, or 92.0%, in 2016. The 2017 decrease was due to lower amortization of intangibles for customer lists associated with acquisitions. The 2016 increase was due to the amortization of intangibles from the previously mentioned acquisitions.

Operating income decreased $3,398, or 14.0%, in 2017 and $438, or 1.8%, in 2016. Our operating margin was 13.0% in 2017, compared to 14.9% in 2016 and 16.9% in 2015. Contributing to the decrease in 2017 were asset abandonments and impairments of $2,914 compared to $361 in 2016 and higher costs due to natural disasters. These decreases were partially offset by disciplined cost management and the utilization of digitalization and automation in the business. Contributing $3,176 to the decrease in operating income in 2016 was a noncash actuarial loss of $1,024 compared to an actuarial gain of $2,152 in 2015. These decreases were partially offset by continued efforts to reduce operating costs and achieve merger synergies.

Interest expense increased $1,390, or 28.3%, in 2017 and $790, or 19.2%, in 2016. The increase in 2017 was primarily due to higher debt balances in anticipation of closing our acquisition of Time Warner Inc. (Time Warner) and an increase in average interest rates when compared to the prior year. Financing fees related to pending acquisitions and debt exchange costs also contributed to higher interest expense in 2017. The increase in 2016 was primarily due to higher average interest rates and higher average debt balances, including debt issued and debt acquired in connection with our acquisition of DIRECTV. Interest expense is expected to increase in 2018 due to lower capitalized interest as spectrum associated with our network deployment plans is put into service.

Equity in net income of affiliates decreased $226 in 2017 and increased $19, or 24.1%, in 2016. The decrease in 2017 was predominantly due to losses from our legacy publishing business (which we sold in June 2017). The increase in 2016 was primarily due to the overall growth in income from our investments in video-related businesses. (See Note 8)

Other income (expense) – net increased $341 in 2017 and $329 in 2016. The increases were primarily due to higher net gains from the sale of non-strategic assets and investments of $98 and $271, and growth in interest and dividend income of $261 and $23, respectively. Our interest and dividend income in 2017 includes interest on cash held in anticipation of closing our acquisition of Time Warner.

Income tax expense decreased $21,187 in 2017 and $526, or 7.5%, in 2016. The decrease in 2017 was primarily due to the enactment of U.S. corporate tax reform, resulting in the remeasurement of our deferred tax obligation using the 21% U.S. federal tax rate from the previous 35% rate. The decrease in 2016 was primarily due to a change in income before income taxes. Our effective tax rate was (97.2)% in 2017, 32.7% in 2016 and 33.9% in 2015.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21% and implements a territorial tax system. Accounting Standards Codification (ASC) 740, "Income Taxes," requires that the effects of changes in tax rates and laws be recognized in the period in which the legislation is enacted. As a result, we decreased our 2017 tax expense by $20,271 primarily related to the remeasurement of the net deferred tax liabilities at the new lower federal tax rate, $816 of which represented the change in statutory rates on items deductible in the fourth-quarter. The effects related to foreign earnings of the one-time transition tax and new territorial tax system do not create material impacts to the effective tax rate and total tax expense. (See Note 11)

The provisions of the Act, which will have a positive impact on our effective tax rate in 2018 and subsequent years, are expected to reduce our effective tax rate in 2018 to approximately 23% (excluding any one-time items).

Segment Results

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

We also evaluate segment performance based on 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 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*** accounted for approximately 43% of our 2017 total segment operating revenues compared to 44% in 2016 and 54% of our 2017 total Segment Contribution as compared to 52% in 2016. This 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; FlexWare, a service that relies on Software Defined Networking (SDN) and Network Functions Virtualization (NFV) to provide application-based routing, and broadband, collectively referred to as fixed strategic services; as well as traditional data and voice products. We utilize our wireless and wired networks to provide a complete communications solution to our business customers.

The ***Entertainment Group segment*** accounted for approximately 32% of our total segment operating revenues in 2017 and 2016 and 18% of our 2017 total Segment Contribution as compared to 19% in 2016. This 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 IP-based and copper wired network and our satellite technology.

The ***Consumer Mobility segment*** accounted for approximately 20% of our total segment operating revenues in 2017 and 2016 and 29% of our 2017 total Segment Contribution as compared to 31% in 2016. This segment provides nationwide wireless service to consumers, wholesale and resale wireless subscribers located in the United States or in U.S. territories. We utilize our network to provide voice and data services, including high-speed internet and home monitoring services over wireless devices.

The ***International segment*** accounted for approximately 5% of our 2017 total segment operating revenues as compared to 4% in 2016. This segment provides entertainment services in Latin America and wireless services in Mexico. Video entertainment services are provided to primarily residential customers using satellite technology. We utilize our regional and national networks in Mexico to provide consumer and business customers with wireless data and voice communication services. Our international subsidiaries conduct business in their local currency, and operating results are converted to U.S. dollars using official exchange rates. Our International segment is subject to foreign currency fluctuations (operations in countries with highly inflationary economies consider the U.S. dollar as the functional currency).

Our operating assets are utilized by multiple segments and consist of our wireless and wired networks as well as our satellite fleet. Our domestic communications business strategies reflect bundled product offerings that increasingly cut across product lines and utilize our asset base. Therefore, asset information and capital expenditures by segment are not presented. Depreciation is allocated based on asset utilization by segment. In expectation of the close of our acquisition of Time Warner, we are beginning to realign our operations and strategies. We are pushing down administrative activities into the business units to better manage costs and serve our customers.

Business Solutions
Segment Results

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Segment operating revenues					
Wireless service	**$ 31,902**	$ 31,850	$ 30,687	**0.2%**	3.8%
Fixed strategic services	**12,227**	11,431	10,383	**7.0**	10.1
Legacy voice and data services	**13,931**	16,370	18,546	**(14.9)**	(11.7)
Other service and equipment	**3,451**	3,566	3,559	**(3.2)**	0.2
Wireless equipment	**7,895**	7,771	7,952	**1.6**	(2.3)
Total Segment Operating Revenues	**69,406**	70,988	71,127	**(2.2)**	(0.2)
Segment operating expenses					
Operations and support	**42,929**	44,330	44,946	**(3.2)**	(1.4)
Depreciation and amortization	**9,326**	9,832	9,789	**(5.1)**	0.4
Total Segment Operating Expenses	**52,255**	54,162	54,735	**(3.5)**	(1.0)
Segment Operating Income	**17,151**	16,826	16,392	**1.9**	2.6
Equity in Net Income (Loss) of Affiliates	**(1)**	-	-	-	-
Segment Contribution	**$ 17,150**	$ 16,826	$ 16,392	**1.9%**	2.6%

The following tables highlight other key measures of performance for the Business Solutions segment:

				Percent Change	
At December 31 (in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Business Wireless Subscribers					
Postpaid	**51,811**	50,688	48,290	**2.2%**	5.0%
Reseller	**87**	65	85	**33.8**	(23.5)
Connected devices [1]	**38,534**	30,649	25,284	**25.7**	21.2
Total Business Wireless Subscribers	**90,432**	81,402	73,659	**11.1**	10.5
Business IP Broadband Connections	**1,025**	977	911	**4.9%**	7.2%

				Percent Change	
(in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Business Wireless Net Additions [2, 4]					
Postpaid	**147**	759	1,203	**(80.6)%**	(36.9)%
Reseller	**7**	(33)	13	**-**	-
Connected devices [1]	**9,639**	5,330	5,315	**80.8**	0.3
Business Wireless Net Subscriber Additions	**9,793**	6,056	6,531	**61.7**	(7.3)
Business Wireless Postpaid Churn [2, 3, 4]	**1.04%**	1.00%	0.99%	**4 BP**	1 BP
Business IP Broadband Net Additions	**48**	66	89	**(27.3)%**	(25.8)%

[1] Includes data-centric devices such as session-based tablets, monitoring devices and automobile systems. Excludes postpaid tablets.
[2] Excludes migrations between AT&T segments and/or subscriber categories and acquisition-related additions during the period.
[3] Calculated by dividing the aggregate number of wireless subscribers who canceled service during a period divided by the total number of wireless subscribers at the beginning of that period. The churn rate for the period is equal to the average of the churn rate for each month of that period.
[4] 2017 excludes the impact of the 2G shutdown, which is reflected in beginning of period subscribers.

Operating revenues decreased $1,582, or 2.2% in 2017 and $139, or 0.2%, in 2016. Revenue declines in 2017 reflect technological shifts away from legacy products. These decreases were partially offset by fixed strategic services, which represented 41% of non-wireless revenues in 2017 and 36% in 2016. The decrease in 2016 was driven by continued declines in our legacy voice and data services and lower wireless equipment revenues, partially offset by continued growth in fixed strategic and wireless services. Our revenues continued to be pressured by slow fixed business investment, although we expect that trend to change with the enactment of corporate tax reform.

Wireless service revenues increased $52, or 0.2%, in 2017 and $1,163, or 3.8%, in 2016. The increase in 2017 was primarily due to the migration of customers from our Consumer Mobility segment, partially offset by customers shifting to our unlimited plans. The increase in 2016 reflected smartphone and tablet gains as well as customer migrations from our Consumer Mobility segment. In 2018, we will continue to see some early challenges with wireless service revenue until we lap the first year of unlimited plans, and then move toward wireless service revenue improvements.

Business wireless subscribers increased 11.1%, to 90.4 million subscribers at December 31, 2017 compared to 10.5%, to 81.4 million subscribers at December 31, 2016. Postpaid subscribers increased 2.2% in 2017 compared to 5.0% in 2016 reflecting the addition of new customers as well as migrations from our Consumer Mobility segment, partially offset by continuing competitive pressures in the industry. Connected devices, which have lower average revenue per average subscriber (ARPU) and churn, increased 25.7% from the prior year reflecting growth in our connected car business and other data-centric devices that utilize the network to connect and control physical devices using embedded computing systems and/or software, commonly called the Internet of Things (IoT) .

The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. Business wireless postpaid churn increased to 1.04% in 2017 from 1.00% in 2016 and 0.99% in 2015.

Fixed strategic services revenues increased $796, or 7.0%, in 2017 and $1,048, or 10.1%, in 2016. Our revenues increased in 2017 and 2016 due to: Ethernet increases of $275 and $226, VoIP increases of $205 and $205, and Dedicated Internet services increases of $198 and $231, respectively.

Due to advances in technology, our most advanced business solutions are subject to change periodically. We review and evaluate our fixed strategic service offerings annually, which may result in an updated definition and the recast of our historical financial information to conform to the current-period presentation. Any modifications will be reflected in the first quarter.

Legacy voice and data service revenues decreased $2,439, or 14.9%, in 2017 and $2,176, or 11.7%, in 2016. Traditional data revenues in 2017 and 2016 decreased $1,130 and $1,186 and long-distance and local revenues decreased $1,309 and $990, respectively. The decreases were primarily due to lower demand as customers continue to shift to our more advanced IP-based offerings or our competitors.

Other service and equipment revenues decreased $115, or 3.2%, in 2017 and increased $7, or 0.2%, in 2016. Other service revenues include project-based revenue, which is nonrecurring in nature, as well as revenues from other managed services, outsourcing, government professional service and customer premises equipment. The decrease in 2017, and increase in 2016, were primarily due to the timing of nonrecurring customer premises equipment contracts.

Wireless equipment revenues increased $124, or 1.6%, in 2017 and decreased $181, or 2.3%, in 2016. The increase in 2017 was primarily due to an increase in device upgrades and increased sales of higher-priced smartphones, largely offset by a change in customer buying habits and promotional offers. The decrease in 2016 was primarily due to a decrease in handsets sold and increased promotional offers, partially offset by an increase in sales under our equipment installment agreements, including our AT&T Next SM (AT&T Next) program . We expect wireless equipment revenues to be pressured in 2018 as customers are retaining their handsets for longer periods of time.

Operations and support expenses decreased $1,401, or 3.2%, in 2017 and $616, or 1.4%, in 2016. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel costs, such as compensation and benefits.

Decreased operations and support expenses in 2017 were primarily due to efforts to automate and digitalize our support activities, improving results $723. As of December 31, 2017, approximately 55% of our network functions have been moved to software-based systems. Expense reductions also reflect lower traffic compensation and wireless interconnect costs, resulting in declines of $233. Lower administrative costs also contributed to decreased expenses in 2017. Partially offsetting the decreases were higher marketing cost and increased wireless handset insurance cost.

Dollars in millions except per share and per subscriber amounts

Decreased operations and support expenses in 2016 were primarily due to legacy product declines, workforce reductions, and other cost-reduction initiatives that improved results $283, and net expense reductions associated with fulfillment cost deferrals, which reduced expenses $219. Lower wireless sales volume and average commission rates, including those paid under the equipment installment programs, combined with fewer handset upgrade transactions reduced expenses $225, and lower wireless handset volumes, which were partially offset by the sale of higher-priced wireless devices and higher-priced customer premises equipment, reduced equipment cost $186. Partially offsetting the decreases were higher wireless handset insurance costs of $195 resulting from increased claim rates and costs per claim and the impact of Connect America and High Cost Funds' receipts.

Depreciation expense decreased $506, or 5.1%, in 2017 and increased $43, or 0.4%, in 2016. The decrease in 2017 was primarily due to our fourth-quarter 2016 change in estimated useful lives and salvage value of certain network assets. Also contributing to lower depreciation expenses were network assets becoming fully depreciated, partially offset by ongoing capital spending for network upgrades and expansion.

The increase in 2016 was primarily due to ongoing capital spending for network upgrades and expansion and accelerating depreciation related to the shutdown of our U.S. 2G network, partially offset by fully depreciated assets. The increase in 2016 was largely offset by the change in estimated useful lives and salvage values of certain assets associated with our transition to an IP-based network.

Operating income increased $325, or 1.9%, in 2017 and $434, or 2.6%, in 2016. Our Business Solutions segment operating income margin was 24.7% in 2017, compared to 23.7% in 2016 and 23.0% in 2015. Our Business Solutions EBITDA margin was 38.1% in 2017, compared to 37.6% in 2016 and 36.8% in 2015.

Entertainment Group
Segment Results

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Segment operating revenues					
Video entertainment	**$ 36,728**	$ 36,460	$ 20,271	**0.7%**	79.9%
High-speed internet	**7,674**	7,472	6,601	**2.7**	13.2
Legacy voice and data services	**3,920**	4,829	5,914	**(18.8)**	(18.3)
Other service and equipment	**2,376**	2,534	2,508	**(6.2)**	1.0
Total Segment Operating Revenues	**50,698**	51,295	35,294	**(1.2)**	45.3
Segment operating expenses					
Operations and support	**39,420**	39,338	28,345	**0.2**	38.8
Depreciation and amortization	**5,623**	5,862	4,945	**(4.1)**	18.5
Total Segment Operating Expenses	**45,043**	45,200	33,290	**(0.3)**	35.8
Segment Operating Income (Loss)	**5,655**	6,095	2,004	**(7.2)**	-
Equity in Net Income (Loss) of Affiliates	**(30)**	9	(4)	**-**	-
Segment Contribution	**$ 5,625**	$ 6,104	$ 2,000	**(7.8)%**	-%

The following tables highlight other key measures of performance for the Entertainment Group segment:

				Percent Change	
At December 31 (in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Video Connections					
Satellite	**20,458**	21,012	19,784	**(2.6)%**	6.2%
U-verse	**3,631**	4,253	5,614	**(14.6)**	(24.2)
DIRECTV NOW [1]	**1,155**	267	-	**-**	-
Total Video Connections	**25,244**	25,532	25,398	**(1.1)**	0.5
Broadband Connections					
IP	**13,462**	12,888	12,356	**4.5**	4.3
DSL	**888**	1,291	1,930	**(31.2)**	(33.1)
Total Broadband Connections	**14,350**	14,179	14,286	**1.2**	(0.7)
Retail Consumer Switched Access Lines	**4,774**	5,853	7,286	**(18.4)**	(19.7)
U-verse Consumer VoIP Connections	**5,222**	5,425	5,212	**(3.7)**	4.1
Total Retail Consumer Voice Connections	**9,996**	11,278	12,498	**(11.4)%**	(9.8)%

1 Consistent with industry practice, DIRECTV NOW includes over-the-top connections that are on free-trial.

				Percent Change	
(in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Video Net Additions					
Satellite [1]	**(554)**	1,228	240	**-%**	-%
U-verse [1]	**(622)**	(1,361)	(306)	**54.3**	-
DIRECTV NOW [2]	**888**	267	-	**-**	-
Net Video Additions	**(288)**	134	(66)	**-**	-
Broadband Net Additions					
IP	**574**	532	973	**7.9**	(45.3)
DSL	**(403)**	(639)	(1,130)	**36.9**	43.5
Net Broadband Additions	**171**	(107)	(157)	**-%**	31.8%

1 Includes disconnections for customers that migrated to DIRECTV NOW.
2 Consistent with industry practice, DIRECTV NOW includes over-the-top connections that are on free-trial.

Operating revenues decreased $597, or 1.2%, in 2017 and increased $16,001, or 45.3% in 2016. The decrease in 2017 was largely due to lower revenues from legacy voice, data products, and other services, partially offset by growth in revenues from video and IP broadband services. The increase in 2016 was largely due to our acquisition of DIRECTV in July 2015 and continued growth in consumer IP broadband, which offset lower revenues from legacy voice and data products.

As consumers continue to demand more mobile access to video, we provide streaming access to our subscribers, including mobile access for existing satellite and AT&T U-verse ® (U-verse) subscribers. In November 2016, we launched DIRECTV NOW, our video streaming option that does not require either satellite or U-verse service (commonly called over-the-top video service).

Video entertainment revenues increased $268, or 0.7%, in 2017 and $16,189, or 79.9%, in 2016. These increases reflect a 2.7% and 5.6% increase in average revenue per linear (combined satellite and U-verse) video connection. Advertising revenues also increased $111, or 7.3%, in 2017 and $367, or 32.1%, in 2016. As of December 31, 2017, about 85% of our linear video subscribers were on the DIRECTV platform, compared to 80% at December 31, 2016. The increase in 2016 was primarily related to our acquisition of DIRECTV.

Linear video subscriber losses and associated margin pressure continued their recent trend, with some of the losses due to the impact from hurricanes as well as tightening of our credit policies. We are also seeing the impact of customers wanting mobile and over-the-top offerings, which is contributing to growth in DIRECTV NOW connections and partially offsetting linear video subscriber losses. DIRECTV NOW connections continue to grow as we add eligible devices and increase content choices. Our strategy to bundle services has positively impacted subscriber trends and churn, with customers who bundle our wireless and video services having nearly half the rate of churn as satellite customers with a single service.

High-speed internet revenues increased $202, or 2.7%, in 2017 and $871, or 13.2%, in 2016. Average revenue per IP broadband connection (ARPU) decreased 1.9% in 2017 and increased 7.3% in 2016. When compared to 2016, IP broadband subscribers increased 4.5%, to 13.5 million subscribers at December 31, 2017. When compared to 2015, IP broadband subscribers increased 4.3%, to 12.9 million subscribers at December 31, 2016. Our bundling strategy is also helping to lower churn for broadband subscribers, with subscribers who bundle broadband with another AT&T service having about half the churn of broadband-only subscribers. To compete more effectively against other broadband providers in the midst of ongoing declines in DSL subscribers, we continued to deploy our all-fiber, high-speed wireline network, which has improved customer retention rates. We also expect our planned 5G national deployment to aid our ability to provide more locations with competitive broadband speeds.

Legacy voice and data service revenues decreased $909, or 18.8%, in 2017 and $1,085, or 18.3%, in 2016. For 2017, legacy voice and data services represented approximately 8% of our total Entertainment Group revenue compared to 9% for 2016 and 17% for 2015 and reflect decreases of $610 and $663 in local voice and long-distance, and $299 and $422 in traditional data revenues. The decreases reflect the continued migration of customers to our more advanced IP-based offerings or to competitors. At December 31, 2017, approximately 6% of our broadband connections were DSL compared to 9% at December 31, 2016.

Operations and support expenses increased $82, or 0.2%, in 2017 and $10,993, or 38.8%, in 2016. Operations and support expenses consist of costs associated with providing video content, and expenses incurred to provide our products and services, which include costs of operating and maintaining our networks, as well as personnel charges for compensation and benefits.

Increased operations and support expenses in 2017 were primarily due to annual content cost increases, deferred customer fulfillment cost amortization and video platform development costs. Offsetting these increases were the impacts of our ongoing focus on cost efficiencies and merger synergies, as well as workforce reductions and lower marketing costs.

Increased operations and support expenses in 2016 were primarily due to our 2015 acquisition of DIRECTV, which increased expenses by $11,748, and reflected pressure from cost increases for the NFL SUNDAY TICKET ® . The DIRECTV-related increases were also due to higher content costs, customer support and service-related charges, and advertising expenses.

Depreciation expenses decreased $239, or 4.1%, in 2017 and increased $917, or 18.5%, in 2016. The decrease in 2017 was primarily due to our fourth-quarter 2016 change in estimated useful lives and salvage values of certain assets. Also contributing to lower depreciation expenses were network assets becoming fully depreciated, offset by ongoing capital spending for network upgrades and expansion.

The increase in 2016 was primarily due to our acquisition of DIRECTV and ongoing capital spending for network upgrades and expansion, partially offset by fully depreciated assets and a change to the estimated useful lives and salvage value of certain assets associated with our transition to an IP-based network.

Operating income decreased $440 in 2017 and increased $4,091 in 2016. Our Entertainment Group segment operating income margin was 11.2% in 2017, 11.9% in 2016 and 5.7% in 2015. Our Entertainment Group EBITDA margin was 22.2% in 2017, 23.3% in 2016 and 19.7% in 2015.

Consumer Mobility
Segment Results

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Segment operating revenues					
Service	**$ 26,053**	$ 27,536	$ 29,150	**(5.4)%**	(5.5)%
Equipment	**5,499**	5,664	5,916	**(2.9)**	(4.3)
Total Segment Operating Revenues	**31,552**	33,200	35,066	**(5.0)**	(5.3)
Segment operating expenses					
Operations and support	**18,966**	19,659	21,477	**(3.5)**	(8.5)
Depreciation and amortization	**3,507**	3,716	3,851	**(5.6)**	(3.5)
Total Segment Operating Expenses	**22,473**	23,375	25,328	**(3.9)**	(7.7)
Segment Operating Income	**9,079**	9,825	9,738	**(7.6)**	0.9
Equity in Net Income of Affiliates	**-**	-	-	**-**	-
Segment Contribution	**$ 9,079**	$ 9,825	$ 9,738	**(7.6)%**	0.9%

The following tables highlight other key measures of performance for the Consumer Mobility segment:

				Percent Change	
At December 31 (in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Consumer Mobility Subscribers					
Postpaid	**26,064**	27,095	28,814	**(3.8)%**	(6.0)%
Prepaid [2]	**15,335**	13,536	11,548	**13.3**	17.2
Branded	**41,399**	40,631	40,362	**1.9**	0.7
Reseller	**9,279**	11,884	13,690	**(21.9)**	(13.2)
Connected devices [1,2]	**457**	942	929	**(51.5)**	1.4
Total Consumer Mobility Subscribers	**51,135**	53,457	54,981	**(4.3)%**	(2.8)%

[1] Includes data-centric devices such as session-based tablets, monitoring devices and postpaid automobile systems. Excludes postpaid tablets. See (2) below.

[2] Beginning in 2017, we are reporting prepaid IoT connections, which primarily consist of connected cars, as a component of prepaid subscribers.

				Percent Change	
(in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Consumer Mobility Net Additions [1, 4]					
Postpaid	**447**	359	463	**24.5%**	(22.5)%
Prepaid [5]	**1,013**	1,575	1,364	**(35.7)**	15.5
Branded Net Additions	**1,460**	1,934	1,827	**(24.5)**	5.9
Reseller	**(1,878)**	(1,813)	(168)	**(3.6)**	-
Connected devices [2,5]	**52**	19	(131)	**-**	-
Consumer Mobility Net Subscriber Additions	**(366)**	140	1,528	**-%**	(90.8)%
Total Churn [1, 3, 4]	**2.36%**	2.15%	1.94%	**21 BP**	21 BP
Postpaid Churn [1, 3, 4]	**1.17%**	1.19%	1.25%	**(2) BP**	(6) BP

[1] Excludes migrations between AT&T segments and/or subscriber categories and acquisition-related additions during the period.

[2] Includes data-centric devices such as session-based tablets, monitoring devices and postpaid automobile systems. Excludes postpaid tablets. See (5) below.

[3] Calculated by dividing the aggregate number of wireless subscribers who canceled service during a month divided by the total number of wireless subscribers at the beginning of that month. The churn rate for the period is equal to the average of the churn rate for each month of that period.

[4] 2017 excludes the impact of the 2G shutdown and a true-up to the reseller subscriber base, which is reflected in beginning of period subscribers.

[5] Beginning in 2017, we are reporting prepaid IoT connections, which primarily consist of connected cars, as a component of prepaid subscribers, resulting in 153 additional prepaid net adds in the year.

Operating revenues decreased $1,648, or 5.0%, in 2017 and $1,866, or 5.3%, in 2016. Decreased revenues reflect declines in postpaid service revenues due to customers migrating to our Business Solutions segment and choosing unlimited plans, partially offset by higher prepaid service revenues. Our business wireless offerings allow for individual subscribers to purchase wireless services through employer-sponsored plans for a reduced price. The migration of these subscribers to the Business Solutions segment negatively impacted our consumer postpaid subscriber total and service revenue growth.

Service revenue decreased $1,483, or 5.4%, in 2017 and $1,614, or 5.5%, in 2016. The decreases were largely due to postpaid customers continuing to shift to discounted monthly service charges under our unlimited plans and the migration of subscribers to Business Solutions. Revenues from postpaid customers declined $1,783, or 9.0%, in 2017 and $2,285, or 10.4%, in 2016. Without the migration of customers to Business Solutions, postpaid wireless revenues would have decreased approximately 5.0% and 5.6%, respectively. The decreases were partially offset by higher prepaid service revenues of $715, or 12.7%, in 2017 and $953, or 20.4%, in 2016 primarily from growth in Cricket and AT&T PREPAID SM subscribers. In 2018, we will continue to see some early challenges with wireless service revenue until we lap the first year of unlimited plans, and then move toward wireless service revenue improvements.

Equipment revenue decreased $165, or 2.9%, in 2017 and $252, or 4.3%, in 2016. The decreases in equipment revenues resulted from lower handset sales and upgrades, partially offset by the sale of higher-priced devices. As previously discussed, equipment revenue is becoming increasingly unpredictable as customers are choosing to upgrade devices less frequently or bring their own.

Operations and support expenses decreased $693, or 3.5%, in 2017 and $1,818, or 8.5%, in 2016. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel expenses, such as compensation and benefits.

Decreased operations and support expenses in 2017 were primarily due to lower volumes of wireless equipment sales and upgrades, which decreased equipment and selling and commission costs, lower marketing and advertising costs resulting from the timing of scheduled ad campaigns and integrated advertising and other operational efficiencies.

Decreased operations and support expenses in 2016 were primarily due to lower volumes of wireless equipment sales and upgrades, which decreased equipment and selling and commission costs, lower network costs attributable to transitioning to more efficient Ethernet/IP-based technologies and other operational efficiencies.

Depreciation expense decreased $209, or 5.6%, in 2017 and $135, or 3.5%, in 2016. The decreases in both years were primarily due to fully depreciated assets, partially offset by ongoing capital spending for network upgrades and expansion.

Operating income decreased $746, or 7.6%, in 2017 and increased $87, or 0.9%, in 2016. Our Consumer Mobility segment operating income margin was 28.8% in 2017, 29.6% in 2016 and 27.8% in 2015. Our Consumer Mobility EBITDA margin was 39.9% in 2017, 40.8% in 2016 and 38.8% in 2015.

International
Segment Results

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Segment operating revenues					
Video entertainment	**$ 5,456**	$ 4,910	$ 2,151	**11.1%**	-%
Wireless service	**2,047**	1,905	1,647	**7.5**	15.7
Wireless equipment	**766**	468	304	**63.7**	53.9
Total Segment Operating Revenues	**8,269**	7,283	4,102	**13.5**	77.5
Segment operating expenses					
Operations and support	**7,404**	6,830	3,930	**8.4**	73.8
Depreciation and amortization	**1,218**	1,166	655	**4.5**	78.0
Total Segment Operating Expenses	**8,622**	7,996	4,585	**7.8**	74.4
Segment Operating Income (Loss)	**(353)**	(713)	(483)	**50.5**	(47.6)
Equity in Net Income (Loss) of Affiliates	**87**	52	(5)	**67.3**	-
Segment Contribution	**$ (266)**	$ (661)	$ (488)	**59.8%**	(35.5)%

The following tables highlight other key measures of performance for the International segment:

				Percent Change	
At December 31 (in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Mexico Wireless Subscribers					
Postpaid	**5,498**	4,965	4,289	**10.7%**	15.8%
Prepaid	**9,397**	6,727	3,995	**39.7**	68.4
Branded	**14,895**	11,692	8,284	**27.4**	41.1
Reseller	**204**	281	400	**(27.4)**	(29.8)
Total Mexico Wireless Subscribers	**15,099**	11,973	8,684	**26.1**	37.9
Latin America Satellite Subscribers					
PanAmericana	**8,270**	7,206	7,066	**14.8**	2.0
SKY Brazil [1]	**5,359**	5,249	5,444	**2.1**	(3.6)
Total Latin America Satellite Subscribers	**13,629**	12,455	12,510	**9.4%**	(0.4)%

[1] Excludes subscribers of our International segment equity investments in SKY Mexico, in which we own a 41.3% stake. SKY Mexico had 8.0 million subscribers at September 30, 2017, 8.0 and 7.3 million subscribers at December 31, 2016 and 2015, respectively.

				Percent Change	
(in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Mexico Wireless Net Additions					
Postpaid	**533**	677	177	**(21.3)%**	-%
Prepaid	**2,670**	2,732	(169)	**(2.3)**	-
Branded Net Additions	**3,203**	3,409	8	**(6.0)**	-
Reseller	**(77)**	(120)	(104)	**35.8**	(15.4)
Mexico Wireless Net Subscriber Additions	**3,126**	3,289	(96)	**(5.0)**	-
Latin America Satellite Net Additions [1]					
PanAmericana	**232**	140	76	**65.7**	84.2
SKY Brazil	**(190)**	(195)	(223)	**2.6**	12.6
Latin America Satellite Net Subscriber Additions [2]	**42**	(55)	(147)	**-%**	62.6%

[1] In 2017, we updated the methodology used to account for prepaid video connections, which were reflected in beginning of period subscribers.

[2] SKY Mexico had net subscriber losses of 11 in the nine months ended September 30, 2017 and additions of 742 and 646 for the year ended December 31, 2016 and 2015, respectively.

Operating Results
Our International segment consists of the Latin American operations acquired with DIRECTV as well as our Mexican wireless operations. Video entertainment services are provided to primarily residential customers using satellite technology. Our international subsidiaries conduct business in their local currency and operating results are converted to U.S. dollars using official exchange rates. Our International segment is subject to foreign currency fluctuations.

Operating revenues increased $986, or 13.5%, in 2017 and 3,181, or 77.5%, in 2016. The increase in 2017 includes higher revenues of $546 from video services in Latin America and $440 from wireless service and equipment revenues in Mexico. The increase in 2016 includes higher revenues of $2,759 from video services in Latin America and $422 from wireless service and equipment revenues in Mexico. The growth in Latin America was primarily due to price increases driven primarily by macroeconomic conditions with mixed local currencies. Mexico wireless revenue improvements were primarily due to growth in equipment revenues as we have increased our subscriber base, partially offset by competitive pricing for services.

Operations and support expenses increased $574, or 8.4%, in 2017 and $2,900, or 73.8%, in 2016. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and providing video content and personnel expenses, such as compensation and benefits.

The increases in 2017 reflect higher charges in Latin America primarily due to higher programming and other operating costs, partially offset by foreign currency exchange rates and our reassessment of operating tax contingencies in Brazil. Increases in Mexico were primarily driven by higher operational costs, including expenses associated with our network expansion and foreign currency pressures.

The increases in 2016 were largely attributable to operations in Latin America reflecting our mid-2015 DIRECTV acquisition.

Depreciation expense increased $52, or 4.5%, in 2017 and $511, or 78.0%, in 2016. The increases were primarily due to updating the estimated asset lives for video equipment in Latin America and higher capital spending in Mexico.

Operating income increased $360, or 50.5%, in 2017 and decreased $230, or 47.6%, in 2016, and was negatively impacted by foreign exchange pressure. Our International segment operating income margin was (4.3)% in 2017, (9.8)% in 2016 and (11.8)% in 2015. Our International EBITDA margin was 10.5% in 2017, 6.2% in 2016 and 4.2% in 2015.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share and per subscriber amounts

Supplemental Operating Information

As a supplemental discussion of our operating results, for comparison purposes, we are providing a view of our combined domestic wireless operations (AT&T Mobility). See "Discussion and Reconciliation of Non-GAAP Measure" for a reconciliation of these supplemental measures to the most directly comparable financial measures calculated and presented in accordance with U.S. generally accepted accounting principles.

AT&T Mobility Results

				Percent Change	
	2017	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Operating revenues					
Service	**$ 57,955**	$ 59,386	$ 59,837	**(2.4)%**	(0.8)%
Equipment	**13,394**	13,435	13,868	**(0.3)**	(3.1)
Total Operating Revenues	**71,349**	72,821	73,705	**(2.0)**	(1.2)
Operating expenses					
Operations and support	**43,255**	43,886	45,789	**(1.4)**	(4.2)
EBITDA	**28,094**	28,935	27,916	**(2.9)**	3.7
Depreciation and amortization	**8,027**	8,292	8,113	**(3.2)**	2.2
Total Operating Expenses	**51,282**	52,178	53,902	**(1.7)**	(3.2)
Operating Income	**$ 20,067**	$ 20,643	$ 19,803	**(2.8)%**	4.2%

The following tables highlight other key measures of performance for AT&T Mobility:

				Percent Change	
At December 31 (in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Wireless Subscribers [1]					
Postpaid smartphones	**59,874**	59,096	58,073	**1.3%**	1.8%
Postpaid feature phones and data-centric devices	**18,001**	18,687	19,032	**(3.7)**	(1.8)
Postpaid	**77,875**	77,783	77,105	**0.1**	0.9
Prepaid [3]	**15,335**	13,536	11,548	**13.3**	17.2
Branded	**93,210**	91,319	88,653	**2.1**	3.0
Reseller	**9,366**	11,949	13,774	**(21.6)**	(13.2)
Connected devices [2, 3]	**38,991**	31,591	26,213	**23.4**	20.5
Total Wireless Subscribers	**141,567**	134,859	128,640	**5.0**	4.8
Branded smartphones	**72,924**	70,817	67,200	**3.0**	5.4
Smartphones under our installment programs at end of period	**32,438**	30,688	26,670	**5.7%**	15.1%

[1] Represents 100% of AT&T Mobility wireless subscribers.
[2] Includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems. Excludes postpaid tablets. See (3) below.
[3] Beginning in 2017, we are reporting prepaid IoT connections, which primarily consist of connected cars, as a component of prepaid subscribers.

				Percent Change	
(in 000s)	**2017**	2016	2015	**2017 vs. 2016**	2016 vs. 2015
Wireless Net Additions [1, 4]					
Postpaid	**594**	1,118	1,666	**(46.9)%**	(32.9)%
Prepaid [5]	**1,013**	1,575	1,364	**(35.7)**	15.5
Branded Net Additions	**1,607**	2,693	3,030	**(40.3)**	(11.1)
Reseller	**(1,871)**	(1,846)	(155)	**(1.4)**	-
Connected devices [2, 5]	**9,691**	5,349	5,184	**81.2**	3.2
Wireless Net Subscriber Additions	**9,427**	6,196	8,059	**52.1**	(23.1)
Smartphones sold under our installment programs during period	**16,667**	17,871	17,320	**(6.7)%**	3.2%
Total Churn [3, 4]	**1.36%**	1.48%	1.39%	**(12) BP**	9 BP
Branded Churn [3, 4]	**1.68%**	1.62%	1.63%	**6 BP**	(1) BP
Postpaid Churn [3, 4]	**1.08%**	1.07%	1.09%	**1 BP**	(2) BP
Postpaid Phone-Only Churn [3, 4]	**0.85%**	0.92%	0.99%	**(7) BP**	(7) BP

1 Excludes acquisition-related additions during the period.
2 Includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems. Excludes postpaid tablets. See (5) below.
3 Calculated by dividing the aggregate number of wireless subscribers who canceled service during a month divided by the total number of wireless subscribers at the beginning of that month. The churn rate for the period is equal to the average of the churn rate for each month of that period.
4 2017 excludes the impact of the 2G shutdown and a true-up to the reseller subscriber base, which is reflected in beginning of period subscribers.
5 Beginning in 2017, we are reporting prepaid IoT connections, which primarily consist of connected cars, as a component of prepaid subscribers, resulting in 153 additional prepaid net adds in the year.

Operating income decreased $576, or 2.8%, in 2017 and increased $840, or 4.2%, in 2016. The operating income margin of AT&T Mobility was 28.1% in 2017, 28.3% in 2016 and 26.9% in 2015. AT&T Mobility's EBITDA margin was 39.4% in 2017, 39.7% in 2016 and 37.9% in 2015. AT&T Mobility's EBITDA service margin was 48.5% in 2017, 48.7% in 2016 and 46.7% in 2015. (EBITDA service margin is operating income before depreciation and amortization, divided by total service revenues.)

Subscriber Relationships
As the wireless industry has matured, future wireless growth will increasingly depend on our ability to offer innovative services, plans, devices and to provide these services in bundled product offerings to best utilize a wireless network that has sufficient spectrum and capacity to support these innovations on as broad a geographic basis as possible. To attract and retain subscribers in a mature and highly competitive market, we have launched a wide variety of plans, including unlimited, as well as equipment installment programs. Beginning in 2017, we expanded our unlimited wireless data plans to make them available to customers that do not subscribe to our video services.

ARPU
Postpaid phone-only ARPU was $58.00 in 2017, compared to $59.45 and $60.45 in 2016 and 2015, respectively. Postpaid phone-only ARPU plus equipment installment billings was $68.75 in 2017, compared to $69.76 and $68.03 in 2016 and 2015, respectively. ARPU has been affected by customers shifting to unlimited plans, which decreases overage revenues; however, customers are adding additional devices helping to offset that decline.

Churn
The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. Total churn was lower in 2017. Postpaid churn was higher in 2017, driven by higher tablet churn. Postpaid phone-only churn was lower in 2017, despite competitive pressure in the industry.

Branded Subscribers
Branded subscribers increased 2.1% in 2017 and 3.0% in 2016. These increases reflect growth of 13.3% and 17.2% in prepaid subscribers and 0.1% and 0.9% in postpaid subscribers, respectively. Beginning in July 2017, we are reporting prepaid IoT connections, which primarily consist of connected cars where customers actively subscribe for vehicle connectivity, as a component of prepaid subscribers.

At December 31, 2017, 93% of our postpaid phone subscriber base used smartphones, compared to 91% at December 31, 2016, with the majority of phone sales during the last three years attributable to smartphones. Virtually all of our postpaid smartphone subscribers are on plans that provide for service on multiple devices at reduced rates, and such subscribers tend to have higher retention and lower churn rates. Device connections on our Mobile Share and unlimited wireless data plans now represent 87% of our postpaid customer base compared to 84% at December 31, 2016. Such offerings are intended to encourage existing subscribers to upgrade their current services and/or add connected devices, attract subscribers from other providers and/or minimize subscriber churn.

Our equipment installment purchase programs, including AT&T Next, allow for postpaid subscribers to purchase certain devices in installments over a specified period of time. Once certain conditions are met, AT&T Next subscribers may be eligible to trade in the original device for a new device and have the remaining unpaid balance paid or settled. For installment programs, we recognize equipment revenue at the time of the sale for the amount of the customer receivable, net of the fair value of the trade-in right guarantee and imputed interest. A significant percentage of our customers choosing equipment installment programs pay a lower monthly service charge, which results in lower service revenue recorded for these subscribers. At December 31, 2017, about 54% of the postpaid smartphone base is on an equipment installment program compared to nearly 52% at December 31, 2016. The majority of postpaid smartphone gross adds and upgrades for all periods presented were either equipment installment plans or Bring Your Own Device (BYOD). While BYOD customers do not generate equipment revenue or expense, the service revenue helps improve our margins.

Connected Devices
Connected Devices includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems. Connected device subscribers increased 23.4% during 2017 and 20.5% in 2016. During 2017, we added approximately 6.4 million wholesale connected cars through agreements with various carmakers, and experienced strong growth in other IoT connections as well. We believe that these connected car agreements give us the opportunity to create future retail relationships with the car owners.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

In 2018, excluding the impact of new revenue recognition rules (see Note 1) and pending acquisitions, we expect the following trends.

2018 Revenue Trends We expect our operating environment to remain highly competitive, as companies and consumers continue to demand instant connectivity, higher speeds and an integrated experience across their devices for both video and data. The recent U.S. federal tax law changes and current regulatory environment contribute to a more favorable landscape for investment in broadband services. The decrease in U.S. corporate tax rates as well as incentives for equipment investment should stimulate the economy and increase business investment overall. In 2018, we expect consolidated operating revenue pressure, driven by the ongoing shift from linear video to over-the-top and other on-demand services. We believe the intensely competitive wireless environment will continue, with service revenues improvements later in the year, and that our ability to offer integrated wireless, video and wireline services, along with continued growth in fixed strategic services, will largely offset revenue pressure. We expect legacy voice and data services will continue to decline.

2018 Expense Trends We intend to continue our focus on cost reductions, driving savings through automation, supply chain, benefit design, digitalizing transactions and optimizing network costs. In addition, the ongoing transition of our network to a more efficient software-based technology is expected to continue driving favorable expense trends over the next several years. However, expenses related to growth areas of our business including new video platforms and our deployment of 5G wireless service will place offsetting pressure on our operating income margin.

Market Conditions During 2017, the U.S. stock market experienced strong gains but general business investment remained slow, affecting our business customers. However, we expect that corporate tax reform, enacted in December 2017, will stimulate business investment and job growth, and, therefore increase demand for our services. Residential customers continue to be price sensitive in selecting offerings, especially in the wireless area, and continue to focus on products that give them efficient access to video and broadcast services. We expect ongoing pressure on pricing during 2018 as we respond to the competitive marketplace, especially in wireless and video services.

Included on our consolidated balance sheets are assets held by benefit plans for the payment of future benefits. Our pension plans are subject to funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). In September 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC to the trust used to pay pension benefits. The trust is entitled to receive cumulative annual cash distributions of $560, which will result in a $560 contribution during 2018. In September 2017, we agreed not to call the preferred equity interest until at least 2022, which increased the value of the preferred equity interests by approximately $1,245. We expect only minimal ERISA contribution requirements to our pension plans for 2018. Investment returns on these assets depend largely on trends in the U.S. securities markets and the U.S. economy, and a weakness in the equity, fixed income and real asset markets could require us in future years to make contributions to the pension plans in order to maintain minimum funding requirements as established by ERISA. In addition, our policy of recognizing actuarial gains and losses related to our pension and other postretirement plans in the period in which they arise subjects us to earnings volatility caused by changes in market conditions. Changes in our discount rate, which are tied to changes in the bond market, and changes in the performance of equity markets, may have significant impacts on the valuation of our pension and other postretirement obligations at the end of 2018 (see "Accounting Policies and Estimates").

OPERATING ENVIRONMENT OVERVIEW

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

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

On December 14, 2017, the FCC voted to return broadband internet access service to its prior classification as an information service, and reinstate the private mobile service classification of mobile broadband internet access service. The order also eliminated the FCC's Internet Conduct Standard, along with the bright-line rules and included transparency requirements related to network management. The order will be effective after it's published in the Federal Register. As a result of the FCC Order, state legislators and governors are introducing individual state laws and executive orders to reinstate portions of the net neutrality regulations vacated by the FCC order. We will continue to support congressional action to codify a set of standard consumer rules for the internet.

On April 20, 2017, the FCC adopted an order that maintains light touch pricing regulation of packet-based services, extends such light touch pricing regulation to high-speed Time Division Multiplex (TDM) transport services and to most of our TDM channel termination services, based on a competitive market test for such services. For those services that do not qualify for light touch regulation, the order allows companies to offer volume and term discounts, as well as contract tariffs. Several parties appealed the FCC's decision. These appeals were consolidated in the U.S. Court of Appeals for the Eighth Circuit, where they remain pending.

In October 2016, a sharply divided FCC adopted new rules governing the use of customer information by providers of broadband internet access service. Those rules were more restrictive in certain respects than those governing other participants in the internet economy, including so-called "edge" providers such as Google and Facebook. On April 3, 2017, the president signed a resolution passed by Congress repealing the new rules under the Congressional Review Act, which prohibits the issuance of a new rule that is substantially the same as a rule repealed under its provisions, or the reissuance of the repealed rule, unless the new or reissued rule is specifically authorized by a subsequent act of Congress.

In February 2015, the FCC released an order classifying both fixed and mobile consumer broadband internet access services as telecommunications services, subject to Title II of the Communications Act. The Order, which represented a departure from longstanding bipartisan precedent, significantly expanded the FCC's authority to regulate broadband internet access services, as well as internet interconnection arrangements. AT&T and several other parties appealed the FCC's order. In June 2016, a divided panel of the District of Columbia Court of Appeals upheld the FCC's rules by a 2-1 vote, and petitions for rehearing *en banc* were denied in May 2017. Petitions for a writ of Certiorari at the U.S. Supreme Court remain pending. Meanwhile, on December 14, 2017, the FCC reversed its 2015 decision by reclassifying fixed and mobile consumer broadband services as information services and repealing most of the rules that were adopted in 2015. In lieu of broad conduct prohibitions, the order requires internet service providers to disclose information about their network practices and terms of service, including whether they block or throttle internet traffic or offer paid prioritization. The order will take effect after the Office of Management and Budget approves the new disclosure requirements.

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

We provide wireless services in robustly competitive markets, but are subject to substantial governmental regulation. Wireless communications providers must obtain licenses from the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the FCC rules and policies governing the use of the spectrum. While wireless communications providers' prices and offerings are generally not subject to state or local regulation, states sometimes attempt to regulate or legislate various aspects of wireless services, such as in the areas of consumer protection and the deployment of cell sites and equipment. The anticipated industry-wide deployment of 5G technology, which is needed to satisfy extensive demand for video and internet access, will involve significant deployment of "small cell" equipment and therefore increase the need for a quick permitting process.

The FCC has recognized that the explosive growth of bandwidth-intensive wireless data services requires the U.S. government to make more spectrum available. The FCC finished its most recent auction in April 2017 of certain spectrum that is currently used by broadcast television licensees (the "600 MHz Auction").

In May 2014, the FCC issued an order revising its policies governing mobile spectrum holdings. The FCC rejected the imposition of caps on the amount of spectrum any carrier could acquire, retaining its case-by-case review policy. Moreover, it increased the amount of spectrum that could be acquired before exceeding an aggregation "screen" that would automatically trigger closer scrutiny of a proposed transaction. On the other hand, it indicated that it will separately consider an acquisition of "low band" spectrum that exceeds one-third of the available low band spectrum as presumptively harmful to competition. The spectrum screen (including the low band screen) recently increased by 23 MHz. On balance, the order and the spectrum screen should allow AT&T to obtain additional spectrum to meet our customers' needs.

As the wireless industry has matured, future wireless growth will increasingly depend on our ability to offer innovative video and data services and a wireless network that has sufficient spectrum and capacity to support these innovations. We continue to invest significant capital in expanding our network capacity, as well as to secure and utilize spectrum that meets our long-term needs. To that end, we have:

- Submitted winning bids for 251 Advanced Wireless Services (AWS) spectrum licenses for a near-nationwide contiguous block of high-quality spectrum in the AWS-3 Auction.
- Redeployed spectrum previously used for basic 2G services to support more advanced mobile internet services on our 3G and 4G networks.
- Secured the First Responder Network Authority (FirstNet) contract, which provides us with access to a nationwide low band 20 MHz of spectrum.
- Invested in 5G and millimeter-wave technologies with our 2018 acquisition of Fiber-Tower Corporation, which holds significant amounts of spectrum in the millimeter wave bands (28 GHz and 39 GHz) that the FCC recently reallocated for mobile broadband services. These bands will help to accelerate our entry into 5G services.

Tax Reform On December 22, 2017, the Tax Cuts and Jobs Act was enacted into law. We expect it to stimulate investment, job creation and economic growth which should result in increased demand for our services. Upon enactment, we made $800 of voluntary contributions to employee healthcare plans, paid $220 for a special one-time bonus to more than 200,000 front-line employees and announced our plan to invest an additional $1,000 of capital in the United States in 2018. We anticipate the legislation will have a positive impact on our consolidated operations and cash flows in 2018 and subsequent years. (See Note 11)

Expected Growth Areas
Over the next few years, we expect our growth to come from international operations, IP-based broadband services and advertising and data insights (especially with Time Warner). With our 2015 acquisitions of DIRECTV and wireless properties in Mexico, our revenue mix is much more diversified. We can now provide integrated services to diverse groups of customers in the U.S. on different technological platforms, including wireless, satellite and wireline. In 2018, our key initiatives include:

- Building a premier gigabit network. FirstNet, combined with our fiber and 5G deployment, provide a powerful platform to accelerate our move to a ubiquitous gigabit world.
- Growing profitability in Mexico.
- Creating a new platform for targeted advertising, using data, content and talent to build an automated advertising platform that can transform premium video and TV advertising.
- Launching a next generation video streaming platform, adding additional enhancements and user interfaces to our video services.
- Continuing to develop a competitive advantage through our industry-leading cost-structure.

Integration of Data/Broadband and Entertainment Services As the communications industry continues to move toward internet-based technologies that are capable of blending wireline, satellite and wireless services, we plan to offer services that take advantage of these new and more sophisticated technologies. In particular, we intend to continue to focus on expanding our high-speed internet and video offerings and on developing IP-based services that allow customers to integrate their home or business fixed services with their mobile service. During 2018, we will continue to develop and provide unique integrated video, mobile and broadband solutions. In late 2017, we expanded our offering of DIRECTV NOW, an over-the-top video service; data usage from DIRECTV NOW will not count toward data limits for customers who bundle this product with our wireless service. We believe this offering facilitates our customers' desire to view video anywhere on demand and encourages customer retention.

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

As of December 31, 2017, we served 157 million wireless subscribers in North America, with nearly 142 million in the United States. Our LTE technology covers over 400 million people in North America. In the United States, we cover all major metropolitan areas and over 320 million people. We also provide 4G coverage using another technology (HSPA+), and when combined with our upgraded backhaul network, we are able to enhance our network capabilities and provide superior mobile broadband speeds for data and video services. Our wireless network also relies on other GSM digital transmission technologies for 3G data communications.

Our acquisition of two Mexican wireless providers in 2015 brought a GSM network covering both the U.S. and Mexico and enabled our customers to use wireless services without roaming on other companies' networks. We believe this seamless access will prove attractive to customers and provide a significant growth opportunity. We also announced in 2015 our plan to invest $3,000 to upgrade our network in Mexico to provide LTE coverage to 100 million people and businesses by year-end 2018. As of year-end 2017, this LTE network covered approximately 96 million people and businesses in Mexico.

REGULATORY DEVELOPMENTS

Set forth below is a summary of the most significant regulatory proceedings that directly affected our operations during 2017. Industry-wide regulatory developments are discussed above in Operating Environment Overview. While these issues may apply only to certain subsidiaries, the words "we," "AT&T" and "our" are used to simplify the discussion. The following discussions are intended as a condensed summary of the issues rather than as a comprehensive legal analysis and description of all of these specific issues.

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

The General Data Protection Regulation goes into effect in Europe in May of 2018. AT&T processes and handles personal data of its customers, employees of its enterprise customers and its employees. This regulation creates a range of new compliance obligations and significantly increases financial penalties for noncompliance. AT&T must implement operational changes to comply with this regulation.

Federal Regulation In February 2015, the FCC released an order classifying both fixed and mobile consumer broadband internet access services as telecommunications services subject to extensive public utility-style regulation under the Telecom Act. The Order, which represented a departure from longstanding bipartisan precedent, significantly expanded the FCC's authority to regulate broadband internet access services, as well as internet interconnection arrangements. AT&T and several other parties appealed the FCC's order. In June 2016, a divided panel of the District of Columbia Court of Appeals upheld the FCC's rules by a 2-1 vote, and petitions for rehearing *en banc* were denied in May 2017. Petitions for a writ of certiorari at the U.S. Supreme Court remain pending. Meanwhile, on December 14, 2017, the FCC reversed its 2015 decision by reclassifying fixed and mobile consumer broadband services as information services and repealing most of the rules that were adopted in 2015. In lieu of broad conduct prohibitions, the order requires internet service providers to disclose information about their network practices and terms of service, including whether they block or throttle internet traffic or offer paid prioritization. The order will take effect after the Office of Management and Budget approves the new disclosure requirements.

On April 20, 2017, the FCC adopted an order bringing to an end a decade-long proceeding regarding pricing of high capacity data services by incumbent local telephone companies, like AT&T. The order declines to require advanced approval of rates for packet-based services like Ethernet, opting instead to continue the existing regime under which such rates are presumed lawful but may be challenged in a complaint. In addition, the order extends this "light touch" approach to high-speed TDM transport services and to most of our TDM channel termination services, based on the application of a competitive market test for such services. For those services that do not qualify for light touch regulation, the order continues to subject the services to price cap regulation but allows companies to offer volume and term discounts, as well as contract tariffs. Several parties appealed the FCC's decision. These appeals were consolidated in the U.S. Court of Appeals for the Eighth Circuit, where they remain pending.

In November 2017, the FCC updated and streamlined certain rules governing pole attachments, copper retirement, and service discontinuances. These changes should facilitate our ability to replace legacy facilities and services with advanced broadband infrastructure and services.

COMPETITION

Competition continues to increase for communications and digital entertainment services. Technological advances have expanded the types and uses of services and products available. In addition, lack of or a reduced level of regulation of comparable legacy services has lowered costs for these alternative communications service providers. As a result, we face heightened competition as well as some new opportunities in significant portions of our business.

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

Our subsidiaries providing communications and digital entertainment services will face continued competitive pressure in 2018 from multiple providers, including wireless, satellite, cable and other VoIP providers, online video providers, and interexchange carriers and resellers. In addition, the desire for high-speed data on demand, including video, are continuing to lead customers to terminate their traditional wired services and use our or competitors' wireless, satellite and internet-based services. In most U.S. markets, we compete for customers, often on pricing of bundled services, with large cable companies, such as Comcast Corporation, Cox Communications Inc. and Charter Communications (marketed as Spectrum), for high-speed internet, video and voice services and other smaller telecommunications companies for both long-distance and local services. In addition, in Latin American countries served by our DIRECTV subsidiary, we also face competition from other video providers, including América Móvil and Telefónica.

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

Our Entertainment Group and Business Solutions segments operate portions of their business under state-specific forms of regulation for retail services that were either legislatively enacted or authorized by the appropriate state regulatory commission. Some states regulate prices of retail services, while others adopt a regulatory framework that incorporates deregulation and price restrictions on a subset of our services. Some states may impose minimum customer service standards with required payments if we fail to meet the standards.

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

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

ACCOUNTING POLICIES AND STANDARDS

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

Allowance for Doubtful Accounts We record expense to maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments. When determining the allowance, we consider the probability of recoverability based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts and installment receivable balances with reserves generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the allowances for doubtful accounts are adjusted through expense accordingly. A 10% change in the amounts estimated to be uncollectible would result in a change in the provision for uncollectible accounts of approximately $164.

Pension and Postretirement Benefits Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 12. Our assumed weighted-average discount rate for pension and postretirement benefits of 3.80% and 3.70%, respectively, at December 31, 2017, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and corresponding to the related expected durations of future cash outflows for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2017, when compared to the year ended December 31, 2016, we decreased our pension discount rate by 0.60%, resulting in an increase in our pension plan benefit obligation of $4,609 and decreased our postretirement discount rate by 0.60%, resulting in an increase in our postretirement benefit obligation of $1,605. For the year ended December 31, 2016, 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 by 0.20%, resulting in an increase in our postretirement benefit obligation of $906.

Our expected long-term rate of return on pension plan assets is 7.00% for 2018 and 7.75% for 2017. Our expected long-term rate of return on postretirement plan assets is 5.75% for 2018 and 2017. Our expected return on plan assets is calculated using the actual fair value of plan assets. The lower expected rate of return on pension plan assets also reflects changes in plan asset mix. 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 2018 combined pension and postretirement cost to increase $244, which under our accounting policy would be adjusted to actual returns in the current year as part of our fourth-quarter remeasurement of our retiree benefit plans. In 2017, the actual return on our combined pension and postretirement plan assets was 14.1%, resulting in an actuarial gain of $3,140.

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

Depreciation Our depreciation of assets, including use of composite group depreciation and estimates of useful lives, is described in Notes 1 and 6.

If all other factors were to remain unchanged, we expect that a one-year increase in the useful lives of our plant in service would have resulted in a decrease of approximately $3,191 in our 2017 depreciation expense and that a one-year decrease would have resulted in an increase of approximately $4,484 in our 2017 depreciation expense.

Asset Valuations and Impairments We record assets acquired in business combinations at fair value. Goodwill and other indefinite-lived intangible assets are not amortized but tested at least annually for impairment. For impairment testing, we estimate fair values using models that predominantly rely on the expected cash flows to be derived from the use of the asset. The fair values of the domestic reporting units discussed below do not reflect the enactment of U.S. corporate tax reform, which will positively impact future cash flows.

We test goodwill on a reporting unit basis by comparing the estimated fair value of each reporting unit to its book value. If the fair value exceeds the book value, then no impairment is measured. We estimate fair values using an income approach (also known as a discounted cash flow) and a market multiple approach. The income approach utilizes our 10-year cash flow projections with a perpetuity value discounted at an appropriate weighted average cost of capital. The market multiple approach uses the multiples of publicly traded companies whose services are comparable to those offered by the reporting units. In 2017, the calculated fair value of the reporting units exceeded book value in all circumstances, and no additional testing was necessary. If either the projected rate of long-term growth of cash flows or revenues declined by 0.5%, or if the discount rate increased by 0.5%, the fair values would still be higher than the book value of the goodwill. In the event of a 10% drop in the fair values of the reporting units, the fair values would have still exceeded the book values of the reporting units, except for Brazil where the fair value exceeded the book value by approximately 7%. The amount of goodwill assigned to the Brazil reporting unit was $2,673.

We assess fair value for wireless licenses using a discounted cash flow model (the Greenfield Approach) and a corroborative market approach based on auction prices, depending upon auction activity. The Greenfield Approach assumes a company initially owns only the wireless licenses and makes investments required to build an operation comparable to current use. Inputs to the model include subscriber growth, churn, revenue per user, capital investment and acquisition costs per subscriber, ongoing operating costs, and resulting EBITDA margins. We based our assumptions on a combination of average marketplace participant data and our historical results, trends and business plans. These licenses are tested annually for impairment on an aggregated basis, consistent with their use on a national scope for the United States and Mexico. For impairment testing, we assume subscriber and revenue growth will trend up to projected levels, with a long-term growth rate reflecting expected long-term inflation trends. We assume churn rates will initially exceed our current experience, but decline to rates that are in line with industry-leading churn. For the U.S. licenses, EBITDA margins are assumed to trend toward 45% annually. We used a discount rate of 8.25% for the United States and 9.25% for Mexico, based on the optimal long-term capital structure of a market participant and its associated cost of debt and equity, to calculate the present value of the projected cash flows. If either the projected rate of long-term growth of cash flows or revenues declined by 0.5%, or if the discount rate increased by 0.5%, the fair values of the wireless licenses would still be higher than the book value of the licenses. The fair value of the wireless licenses in the United States and Mexico each exceeded the book value by more than 10%.

Orbital slots are also valued using the Greenfield Approach. The projected cash flows are based on various factors, including satellite cost, other capital investment per subscriber, acquisition costs per subscriber and usage per subscriber, as well as revenue growth, subscriber growth and churn rates. For impairment testing purposes, we assumed sustainable long-term growth assumptions consistent with the business plan and industry counterparts in the United States. We used a discount rate of 9% to calculate the present value of the projected cash flows. If either the projected rate of long-term growth of cash flows or revenues declined by 0.5%, or if the discount rate increased by 0.5%, the fair values of the orbital slots would still be higher than the book value of the orbital slots. The fair value of the orbital slots exceeded the book value by more than 10%.

We review customer relationships and other finite-lived intangible assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over their remaining life. For this analysis, we compare the expected undiscounted future cash flows attributable to the asset to its book value.

We periodically assess our network assets for impairment (see Note 6).

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

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

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

The Tax Cuts and Jobs Act (Act) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign-sourced earnings. At December 31, 2017, we have not completed our accounting for the tax effects of enactment of the Act; however, we remeasured substantially all of our deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future as a result of the reduction in federal tax rate and recorded a provisional amount for our one-time transition tax liability for our foreign subsidiaries. We continue to analyze certain aspects of the Act and refine our calculations, which could potentially affect the measurement of these balances. The Securities and Exchange Commission has issued guidance that provides a "measurement period" whereby registrants can provide a reasonable estimate of the tax reform impact in their financial statements but can adjust that amount during the measurement period (expected to be a year or less). Our future results could include additional adjustments, and those adjustments could be material. (See Note 11)

New Accounting Standards

Beginning with 2018 interim and annual reporting periods, we will adopt the FASB's new accounting guidance related to revenue recognition and the deferral of customer contract acquisition and fulfillment costs. As a result of modified retrospective application, the guidance only impacts our financial statements for periods beginning after December 31, 2017, affecting the comparability of our financial statements.

See Note 1 for discussion of the impacts of the standard. We expect the new revenue recognition accounting standard will have a positive impact on our near-term financial results. Several items will be impacted, but the more significant of these are the deferral of commission expenses, which will increase operating income; re-characterization of service to equipment revenues for equipment provided with multi-year service contracts, which is expected to have an impact on service revenue, but not a material impact on total revenue; and offsetting Universal Service Fund (USF) and other regulatory fee revenues against related expenses, which will significantly reduce both revenues and expenses, but have little impact on operating income. Our preliminary estimate of the impacts to 2018 diluted earnings per share is an increase of $0.10 to $0.15. Our estimates reflect our expectation of the success of our equipment installment programs to gain subscriber contracts, and the level of promotional activities and commissions paid in 2018.

OTHER BUSINESS MATTERS

Time Warner Inc. Acquisition In October 2016, we announced an agreement (Merger Agreement) to acquire 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). 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. The cash portion of the purchase price will be financed with debt and cash. See Note 7 for additional details of the transaction and "Liquidity" for a discussion of our financing arrangements.

On November 20, 2017, the United States Department of Justice (DOJ) filed a complaint in the U.S. District Court, District of Columbia seeking a permanent injunction to prevent AT&T from acquiring Time Warner, alleging that the effect of the transaction "may be substantially to lessen competition" in violation of federal antitrust law. AT&T disputes the government allegations, and believes the merger is pro-consumer, pro-competitive and ultimately will be approved. The Court has scheduled trial to begin on March 19, 2018. In light of the trial date and expected timing of a decision, both AT&T and Time Warner elected to further extend the termination date of the merger agreement to June 21, 2018.

FirstNet On March 30, 2017, FirstNet announced its selection of AT&T to build and manage the first nationwide broadband network dedicated to America's first responders. By January 2018, all 56 jurisdictions, including 50 states, the District of Columbia and five U.S. territories, have elected to participate in the network. Under the awarded 25-year agreement, FirstNet will provide 20 MHz of valuable telecommunications spectrum and success-based payments of $6,500 over the next five years to support network buildout. We expect to spend about $40,000, in part recoverable from FirstNet, over the life of the 25-year contract to build, operate and maintain the network. The spectrum provides priority use to first responders, which are included as wireless subscribers and contribute to wireless revenues. As allowed under the agreement, excess capacity on the spectrum is used for any of AT&T's subscriber base.

Under the agreement, we are required to construct a network that achieves coverage and nationwide interoperability requirements. We have a contractual commitment to make sustainability payments of $18,000 over the 25-year contract. These sustainability payments represent our commitment to fund FirstNet's operating expenses and future reinvestments in the network which we will own and operate. FirstNet has a statutory requirement to reinvest funds that exceed the agency's operating expenses, which are anticipated to be in the $75-$100 range annually, and when including increases for inflation, we expect to be in the $3,000 or less range over the life of the 25-year contract. Being subject to federal acquisition rules, FirstNet is prohibited from contractually committing to a specific vendor for future network reinvestment. However, it is highly probable that AT&T will receive substantially all of the funds reinvested into the network since AT&T will own and operate the infrastructure and have exclusive rights to use the spectrum as all states have opted in. After FirstNet's operating expenses are paid, we anticipate that the remaining amount, expected to be in the $15,000 range, will be reinvested into the network. (See Note 17)

Litigation Challenging DIRECTV's NFL SUNDAY TICKET More than two dozen putative class actions were filed in the U.S. District Courts for the Central District of California and the Southern District of New York against DIRECTV and the National Football League (NFL). These cases were brought by residential and commercial DIRECTV subscribers that have purchased NFL SUNDAY TICKET. The plaintiffs allege that (i) the 32 NFL teams have unlawfully agreed not to compete with each other in the market for nationally televised NFL football games and instead have "pooled" their broadcasts and assigned to the NFL the exclusive right to market them; and (ii) the NFL and DIRECTV have entered into an unlawful exclusive distribution agreement that allows DIRECTV to charge "supra-competitive" prices for the NFL SUNDAY TICKET package. The complaints seek unspecified treble damages and attorneys' fees along with injunctive relief. The first complaint, Abrahamian v. National Football League, Inc., et al., was served in June 2015. In December 2015, the Judicial Panel on Multidistrict Litigation transferred the cases outside the Central District of California to that court for consolidation and management of pre-trial proceedings. In June 2016, the plaintiffs filed a consolidated amended complaint. We vigorously dispute the allegations the complaints have asserted. In August 2016, DIRECTV filed a motion to compel arbitration and the NFL defendants filed a motion to dismiss the complaint. I n June 2017, the court granted the NFL defendants' motion to dismiss the complaint without leave to amend, finding that: (1) the plaintiffs did not plead a viable market; (2) the plaintiffs did not plead facts supporting the contention that the exclusive agreement between the NFL and DIRECTV harms competition; (3) the claims failed to overcome the fact that the NFL and its teams must cooperate to sell broadcasts; and (4) the plaintiffs do not have standing to challenge the horizontal agreement among the NFL and the teams. In light of the order granting the motion to dismiss, the court denied DIRECTV's motion to compel arbitration as moot. In July 2017, plaintiffs filed an appeal in the U.S. Court of Appeals for the Ninth Circuit, which is pending. We anticipate that, following the briefing, the oral argument will occur in the fall of 2018.

Federal Trade Commission Litigation Involving DIRECTV In March 2015, the Federal Trade Commission (FTC) filed a civil suit in the U.S. District Court for the Northern District of California against DIRECTV seeking injunctive relief and money damages under Section 5 of the Federal Trade Commission Act and Section 4 of the Restore Online Shoppers' Confidence Act. The FTC's allegations concern DIRECTV's advertising, marketing and sale of programming packages. The FTC alleges that DIRECTV did not adequately disclose all relevant terms. We vigorously dispute these allegations. A bench trial began on August 14, 2017, and was suspended on August 25, 2017, after the FTC rested its case, so that the court could consider DIRECTV's motion for judgment. The hearing on the motion occurred on October 25, 2017, and the judge took it under advisement.

Unlimited Data Plan Claims In October 2014, the FTC filed a civil suit in the U.S. District Court for the Northern District of California against AT&T Mobility, LLC seeking injunctive relief and unspecified money damages under Section 5 of the Federal Trade Commission Act. The FTC's allegations concern the application of AT&T's Maximum Bit Rate (MBR) program to customers who enrolled in our Unlimited Data Plan from 2007-2010. MBR temporarily reduces in certain instances the download speeds of a small portion of our legacy Unlimited Data Plan customers each month after the customer exceeds a designated amount of data during the customer's billing cycle. MBR is an industry-standard practice that is designed to affect only the most data-intensive applications (such as video streaming). Texts, emails, tweets, social media posts, internet browsing and many other applications are typically unaffected. Contrary to the FTC's allegations, our MBR program is permitted by our customer contracts, was fully disclosed in advance to our Unlimited Data Plan customers, and was implemented to protect the network for the benefit of all customers. In March 2015, our motion to dismiss the litigation on the grounds that the FTC lacked jurisdiction to file suit was denied. In May 2015, the Court granted our motion to certify its decision for immediate appeal. The United States Court of Appeals for the Ninth Circuit subsequently granted our petition to accept the appeal, and, on August 29, 2016, issued its decision reversing the district court and finding that the FTC lacked jurisdiction to proceed with the action. The FTC asked the Court of Appeals to reconsider the decision " *en banc,* " which the Court agreed to do. The *en banc* hearing was held on September 19, 2017. We do not expect a decision until early or mid-2018. In addition to the FTC case, several class actions were filed challenging our MBR program. We have secured dismissals in each of these cases, although in one of the cases, we do not yet know whether the plaintiff will seek further appellate review.

Labor Contracts As of January 31, 2018, we employed approximately 252,000 persons. Approximately 46% of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers (IBEW) or other unions. After expiration of the agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached.

A summary of labor contract settlements reached in 2017, by region or employee group, is as follows:

- The West and East Regions' Core contracts which expired in April 2016 were settled and ratified by the CWA in August 2017. The West contract now includes approximately 2,300 former DIRECTV non-management employees. These new contracts expire in April 2020 and together cover more than 17,000 employees.
- The Southwest Region's Core contract which would have expired in April 2017 was settled and ratified by the CWA in April 2017. This new contract expires in April 2021 and covers 20,000 employees.
- The IBEW's primary labor contract which would have expired in June 2017 was settled and ratified by the CWA in May 2017. This contract expires in June 2022 and covers 5,000 employees.
- A Mobility contract covering approximately 20,000 employees which would have expired in February 2017 was settled and ratified by the CWA in January 2018. The new contract will expire in February 2021.

Environmental We are subject from time to time to judicial and administrative proceedings brought by various governmental authorities under federal, state or local environmental laws. We reference in our Forms 10-Q and 10-K certain environmental proceedings that could result in monetary sanctions (exclusive of interest and costs) of one hundred thousand dollars or more. However, we do not believe that any of those currently pending will have a material adverse effect on our results of operations.

LIQUIDITY AND CAPITAL RESOURCES

In anticipation of the Time Warner transaction closing, we had $50,498 in cash and cash equivalents available at December 31, 2017. Cash and cash equivalents included cash of $4,156 and money market funds and other cash equivalents of $46,342. Approximately $1,466 of our cash and cash equivalents resided in foreign jurisdictions and were primarily in foreign currencies; these funds are primarily used to meet working capital requirements of foreign operations.

Cash and cash equivalents increased $44,710 since December 31, 2016. In 2017, cash inflows were primarily provided by the issuance of long-term debt and cash receipts from operations, including cash from our sale and transfer of certain wireless equipment installment receivables to third parties. We also received a $1,438 deposit refund from the FCC. These inflows were offset by cash used to meet the needs of the business, including, but not limited to, payment of operating expenses, funding capital expenditures, debt repayments, dividends to stockholders, and the acquisition of wireless spectrum and other operations. We discuss many of these factors in detail below.

On December 22, 2017, federal tax reform was enacted into law. Beginning with 2018, the Act reduces the U.S. federal corporate tax rate from 35% to 21% and permits immediate deductions for certain new assets. As a result, cash taxes will be significantly lower than they would have been in 2018 and beyond without federal tax reform.

Cash Provided by or Used in Operating Activities

During 2017, cash provided by operating activities was $39,151 compared to $39,344 in 2016. Lower operating cash flows in 2017 were primarily due to more than $1,000 of voluntary employee-related payments resulting from tax reform.

During 2016, cash provided by operating activities was $39,344 compared to $35,880 in 2015. Higher operating cash flows in 2016 were primarily due to our acquisition of DIRECTV and the timing of working capital payments.

Cash Used in or Provided by Investing Activities

During 2017, cash used in investing activities of $20,371 consisted primarily of $20,647 for capital expenditures, excluding interest during construction. Investing activities also included a refund from the FCC in the amount of $1,438 in April 2017, resulting from the conclusion of the FCC's 600 MHz Auction. We submitted winning bids to purchase spectrum licenses in 18 markets for which we paid $910.

The majority of our capital expenditures are spent on our networks, our video services and related support systems. Capital expenditures, excluding interest during construction, decreased $869 in 2017. In connection with capital improvements, we negotiate favorable payment terms (referred to as vendor financing), which are excluded from our investing activities and reported as financing activities. In 2017, vendor financing payments related to capital investments were approximately $830. We do not report capital expenditures at the segment level.

In 2018, we expect our capital expenditures to approach $25,000; $23,000 net of expected FirstNet reimbursements and inclusive of $1,000 incremental tax reform investment. The amount of capital expenditures is influenced by demand for services and products, capacity needs and network enhancements. We continue to focus on ensuring our DIRECTV merger build commitment is met. As of December 31, 2017, we market our fiber-to-the-premises network to 7.4 million customer locations and are on track to meet our FCC commitment of 12.5 million locations by mid-2019.

Cash Used in or Provided by Financing Activities

We paid dividends of $12,038 in 2017, $11,797 in 2016 and $10,200 in 2015. The increases in 2017 and 2016 were due to the increase in the quarterly dividend approved by our Board of Directors in the fourth quarter of each year. The 2016 increase was also due to the higher number of outstanding shares following the DIRECTV merger. On December 15, 2017, our Board of Directors approved a 2.0% increase in the quarterly dividend from $0.49 to $0.50 per share. This follows a 2.1% dividend increase approved by our Board in October 2016. Dividends declared by our Board of Directors totaled $1.97 per share in 2017, $1.93 per share in 2016 and $1.89 per share in 2015. Our dividend policy considers the expectations and requirements of stockholders, capital funding requirements of AT&T and long-term growth opportunities. It is our intent to provide the financial flexibility to allow our Board of Directors to consider dividend growth and to recommend an increase in dividends to be paid in future periods. All dividends remain subject to declaration by our Board of Directors.

During 2017, cash provided by financing activities totaled $25,930 and included net proceeds of $48,793 primarily from the following long-term debt issuances:

- February issuance of $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; and $1,000 of 5.700% global notes due 2057.
- March issuance of $1,430 of 5.500% global notes due 2047.
- March issuance of $800 floating rate global notes due 2020. The floating rate for the notes is based upon the three-month London Interbank Offered Rate (LIBOR), reset quarterly, plus 65 basis points.
- March draw of $300 on a private financing agreement with Banco Nacional de Mexico, S.A. due March 2019. The agreement contains terms similar to that provided under our syndicated credit arrangements; the interest rate is a market rate. As of December 31, 2017, a total of $690 had been drawn against this arrangement.
- May issuance of $1,500 floating rate global notes due 2021. The floating rate for the notes is based upon the three-month LIBOR, reset quarterly, plus 95 basis points.
- May issuance of CAD$600 of 2.850% global notes due 2024 and CAD$750 of 4.850% global notes due 2047 (together, equivalent to $994, when issued).
- June issuance of £1,000 of 3.550% global notes due 2037, subject to mandatory redemption described further below (equivalent to $1,282 when issued).
- June issuance of €750 of 1.050% global notes due 2023; €1,750 of 1.800% global notes due 2026; €1,500 of 2.350% global notes due 2029; €1,750 of 3.150% global notes due 2036 and €1,250 of floating rate global notes due 2023. All except the 2036 global notes are subject to mandatory redemption (together, equivalent to $7,883, when issued).
- August issuance of $750 of floating rate notes due 2023; $1,750 of 2.850% global notes due 2023; $3,000 of 3.400% global notes due 2024; $5,000 of 3.900% global notes due 2027; $4,500 of 4.900% global notes due 2037; $5,000 of 5.150% global notes due 2050 and $2,500 of 5.300% global notes due 2058. All are subject to mandatory redemption.
- October draw of $750 on a private financing agreement with Canadian Imperial Bank of Commerce due 2022.
- October issuance of $1,323 of 5.350% global notes due 2066.

For notes subject to mandatory redemption, if we do not consummate the Time Warner acquisition pursuant to the merger agreement on or prior to the original termination date of April 22, 2018, or, if prior to such date, the merger agreement is terminated, then in either case we must redeem the notes at a redemption price equal to 101% of the principal amount of the notes, plus accrued but unpaid interest. On November 20, 2017, the DOJ filed a civil antitrust lawsuit against AT&T challenging our proposed acquisition of Time Warner. The Court has set a March 19, 2018 date for trial. On December 21, 2017, an agreement was reached with Time Warner that the parties would not terminate the merger agreement until June 21, 2018. On February 15, 2018, we announced private offers to exchange five series of Euro (face value of €5,250) and British pound sterling (face value of £1,000) denominated notes subject to mandatory redemption for new notes that are not subject to mandatory redemption and cash. The new notes are Euro and British pound sterling denominated global notes with either a floating rate or stated rates between 1.050% and 3.550%. The exchange is expected to settle on February 27, 2018.

On December 1, 2017, we completed two exchange offers. In the first exchange offer, approximately $5,448 of notes issued by AT&T Inc., DIRECTV Holdings LLC and DIRECTV Financing Co., Inc., due between 2020 and 2023 with stated rates of zero-coupon to 5.200%, were tendered and accepted in exchange for $5,605 of two new series of AT&T Inc. global notes due between 2028 and 2030 with stated rates of 4.100% and 4.300%. In the second exchange offer, approximately $3,726 of notes issued by AT&T Inc. or one of its subsidiaries, due between 2022 and 2097 with stated rates of 5.850% to 8.750%, were tendered and accepted in exchange for $3,736 of new AT&T Inc. global notes due between 2022 and 2097 with stated rates of 5.150% to 8.750% plus a $449 cash payment.

Our weighted average interest rate of our entire long-term debt portfolio, including the impact of derivatives, was approximately 4.4% as of December 31, 2017, compared to 4.2% as of December 31, 2016. We had $162,526 of total notes and debentures outstanding at December 31, 2017, which included Euro, British pound sterling, Swiss franc, Brazilian real, Mexican peso and Canadian dollar denominated debt that totaled approximately $37,621.

During 2017, we redeemed or repaid $12,339 of debt, primarily consisting of the following:

- $1,142 of 2.400% global notes due 2017.
- $1,000 of 1.600% global notes due 2017.
- $500 of floating rate notes due 2017.
- £750 of 5.875% global notes due 2017.
- $750 repayment of a private financing agreement with Export Development Canada due 2017.
- $1,150 of 1.700% global notes due 2017.
- $4,155 repayment of amounts outstanding under our syndicated credit agreement.
- $2,000 of 1.400% global notes due 2017.

At December 31, 2017, we had $38,374 of debt maturing within one year, $30,154 of which was related to notes issued for our acquisition of Time Warner that are subject to mandatory redemption. Approximately $8,220 of the remaining debt maturing within one year was related to long-term debt issuances. Debt maturing within one year includes the following notes that may be put back to us by the holders:

- $1,000 of annual put reset securities issued by BellSouth that may be put back to us each April until maturity in 2021.
- An accreting zero-coupon note that may be redeemed each May until maturity in 2022. In May 2017, $1 was redeemed by the holder for $1. If the remainder of the zero-coupon note (issued for principal of $500 in 2007 and partially exchanged in the 2017 debt exchange offers) is held to maturity, the redemption amount will be $592.

Our Board of Directors approved repurchase authorizations of 300 million shares each in 2013 and 2014 (see Note 14). For the year ended December 31, 2017 we repurchased approximately 7 million shares totaling $279 under these authorizations. At December 31, 2017, we had approximately 388 million shares remaining from these authorizations.

Excluding the impact of acquisitions, our 2018 financing activities will focus on the refinancing and/or repayment of debt and the payment of dividends, subject to approval by our Board of Directors. We plan to fund our financing uses of cash through a combination of cash from operations, debt issuances and asset sales. We have existing cash reserves and access to term loan financing which may be used upon closing of our acquisition of Time Warner. The timing and mix of any debt issuance will be guided by credit market conditions and interest rate trends.

Credit Facilities

The following summary of our various credit and loan agreements does not purport to be complete and is qualified in its entirety by reference to each agreement filed as exhibits to our Annual Report on Form 10-K.

We use credit facilities as a tool in managing our liquidity status. In December 2015, we entered into a five-year $12,000 revolving credit agreement of which no amounts are outstanding as of December 31, 2017. On September 5, 2017, we repaid all of the amounts outstanding under a $9,155 syndicated credit agreement and terminated the facility. On September 29, 2017, we entered into a five-year $2,250 syndicated term loan credit agreement containing (i) a $750 term loan facility (the "Tranche A Facility"), (ii) a $750 term loan facility (the "Tranche B Facility") and (iii) a $750 term loan facility (the "Tranche C Facility"), with certain investment and commercial banks and The Bank of Nova Scotia, as administrative agent. No amounts are outstanding under the Tranche A Facility, the Tranche B Facility or the Tranche C Facility as of December 31, 2017.

We also enter into various credit arrangements supported by government agencies to support network equipment purchases.

In connection with our pending Merger with Time Warner, we entered into a $30,000 bridge loan credit agreement ("Bridge Loan") and a $10,000 term loan agreement ("Term Loan"). Following the August issuances of $22,500 of global notes, we reduced the commitments under the Bridge Loan to $0 and terminated the facility. On February 2, 2018, we amended the Term Loan to extend the commitment termination date to December 31, 2018 and increase the commitments to $16,175 from $10,000. No amounts will be borrowed under the Term Loan prior to the closing of the Merger. Borrowings under the Term Loan 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.

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 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. As of December 31, 2017, we were in compliance with the covenants for our credit facilities.

Collateral Arrangements
During 2017, we received $3,714 of additional cash collateral, on a net basis, from banks and other participants in our derivative arrangements, compared to posting $1,022 in the prior year. Cash postings under these arrangements vary with changes in credit ratings and netting agreements. At December 31, 2017, we had posted collateral of $495 and held collateral of $968 , compared to December 31, 2016, posted collateral assets of $3,242 and no collateral liabilities. (See Note 10)

Other
Our total capital consists of debt (long-term debt and debt maturing within one year) and stockholders' equity. Our capital structure does not include debt issued by our equity method investments. At December 31, 2017, our debt ratio was 53.6%, compared to 49.9% at December 31, 2016 and 50.5% at December 31, 2015. The debt ratio is affected by the same factors that affect total capital, and reflects the debt issued in 2017 and our repurchases of outstanding shares of AT&T common stock, and debt redemptions during 2017. Total capital increased $58,730 in 2017 compared to a decrease of $2,168 in 2016. The 2017 capital increase was primarily due to increased debt balances in anticipation of closing the Time Warner acquisition, and an increase in retained earnings.

A significant amount of our cash outflows is related to tax items and benefits paid for current and former employees. Total taxes incurred, collected and remitted by AT&T during 2017, 2016 and 2015 were $23,393, $25,099 and $21,501. These taxes include income, franchise, property, sales, excise, payroll, gross receipts and various other taxes and fees. Total health and welfare benefits provided to certain active and retired employees and their dependents totaled $4,512 in 2017, with $1,055 paid from plan assets. Of those benefits, $4,184 related to medical and prescription drug benefits. In addition, in December 2017, we prefunded $800 for future benefit payments. During 2017, we paid $3,705 of pension benefits out of plan assets.

During 2017, we also received approximately $ 5,727 from monetization of various assets, compared to $5,281 in 2016, primarily from our sales of certain equipment installment receivables. We plan to continue to explore monetization opportunities in 2018.

In 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC (Mobility), the holding company for our U.S. wireless operations, to the pension trust used to pay benefits under our qualified pension plans. The preferred equity interest had a value of $9,155 as of December 31, 2017, and $8,477 as of December 31, 2016, does not have any voting rights and has a liquidation value of $8,000. The trust is entitled to receive cumulative cash distributions of $560 per annum, which are distributed quarterly in equal amounts. Mobility II distributed $560 to the trust during 2017. So long as those distributions are made, the terms of the preferred equity interest will not impose any limitations on our ability to declare a dividend or repurchase shares.

In early September 2017, AT&T notified the trust and the fiduciary of the preferred interest that AT&T would not exercise its call option of the preferred interest until at least September 9, 2022, which increased the valuation of the preferred interest by approximately $1,245.

Dollars in millions except per share and per subscriber amounts

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

Our contractual obligations as of December 31, 2017 are in the following table:

	Payments Due By Period				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations [1]	$ 167,879	$ 37,836	$ 16,257	$ 18,155	$ 95,631
Interest payments on long-term debt	121,906	7,253	13,668	12,559	88,426
Finance obligations [2]	3,102	244	502	522	1,834
Operating lease obligations [3]	25,928	3,945	7,100	5,627	9,256
Capital lease obligations [4]	1,818	142	190	218	1,268
Unrecognized tax benefits [5]	5,052	985	-	-	4,067
FirstNet sustainability payments [6]	18,000	240	240	315	17,205
Purchase obligations [7]	35,239	10,074	12,331	7,003	5,831
Total Contractual Obligations	$ 378,924	$ 60,719	$ 50,288	$ 44,399	$ 223,518

[1] Represents principal or payoff amounts of notes and debentures at maturity or, for putable debt, the next put opportunity (see Note 9).

[2] Represents future minimum payments under the Crown Castle and other arrangements (see Note 16).

[3] Represents operating lease payments (see Note 6).

[4] Represents capital lease payments (see Note 6).

[5] The noncurrent portion of the UTBs is included in the "More than 5 Years" column, as we cannot reasonably estimate the timing or amounts of additional cash payments, if any, at this time (see Note 11).

[6] Represents contractual commitment to make sustainability payments over the 25-year contract. These sustainability payments represent our commitment to fund FirstNet's operating expenses and future reinvestment in the network, which we will own and operate. FirstNet has a statutory requirement to reinvest funds that exceed the agency's operating expenses. We anticipate that the remaining amount, expected to be in the $15,000 range, will be reinvested into our network. (See Note 17)

[7] The purchase obligations will be funded with cash provided by operations or through incremental borrowings. The minimum commitment for certain obligations is based on termination penalties that could be paid to exit the contracts. If we elect to exit these contracts, termination fees for all such contracts in the year of termination could be approximately $694 in 2018, $737 in the aggregate for 2019 and 2020, $255 in the aggregate for 2021 and 2022, and $131 in the aggregate thereafter. Certain termination fees are excluded from the above table, as the fees would not be paid every year and the timing of such payments, if any, is uncertain.

Certain items were excluded from this table, as the year of payment is unknown and could not be reliably estimated since past trends were not deemed to be an indicator of future payment, the obligations are immaterial or because the settlement of the obligation will not require the use of cash. These items include: deferred income taxes of $43,207 (see Note 11); postemployment benefit obligations of $31,775; contributions associated with our voluntary contribution of the Mobility preferred equity interest, and expected pension and postretirement payments (see Note 12); other noncurrent liabilities of $19,747; third-party debt guarantees; fair value of our interest rate swaps; and vendor financing.

MARKET RISK

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

One of the most significant assumptions used in estimating our postretirement benefit obligations is the assumed weighted-average discount rate, which is the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date and corresponding to the related expected durations of future cash outflows for the obligations. At December 31, 2017, the discount rates used to measure our pension and postretirement plans were historically low, resulting in a higher estimated obligation. Future increases in these rates could result in lower obligations, improved funded status and actuarial gains.

Dollars in millions except per share and per subscriber amounts

Interest Rate Risk

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

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

Following are our interest rate derivatives subject to material interest rate risk as of December 31, 2017. The interest rates illustrated below refer to the average rates we expect to pay based on current and implied forward rates and the average rates we expect to receive based on derivative contracts. The notional amount is the principal amount of the debt subject to the interest rate swap contracts . The fair value asset (liability) represents the amount we would receive (pay) if we had exited the contracts as of December 31, 2017.

	Maturity							
	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value 12/31/17
Interest Rate Derivatives								
Interest Rate Swaps:								
Receive Fixed/Pay Variable Notional Amount Maturing	$ 4,100	$ 4,100	$ -	$ 853	$ 100	$ 680	$ 9,833	$ (14)
Weighted-Average Variable Rate Payable [1]	4.4%	5.5%	5.8%	6.5%	6.7%	6.7%		
Weighted-Average Fixed Rate Receivable	4.3%	5.4%	5.6%	6.5%	6.8%	6.6%		

[1] Interest payable based on current and implied forward rates for One, Three, or Six Month LIBOR plus a spread ranging between approximately 49 and 564 basis points.

Foreign Exchange Risk

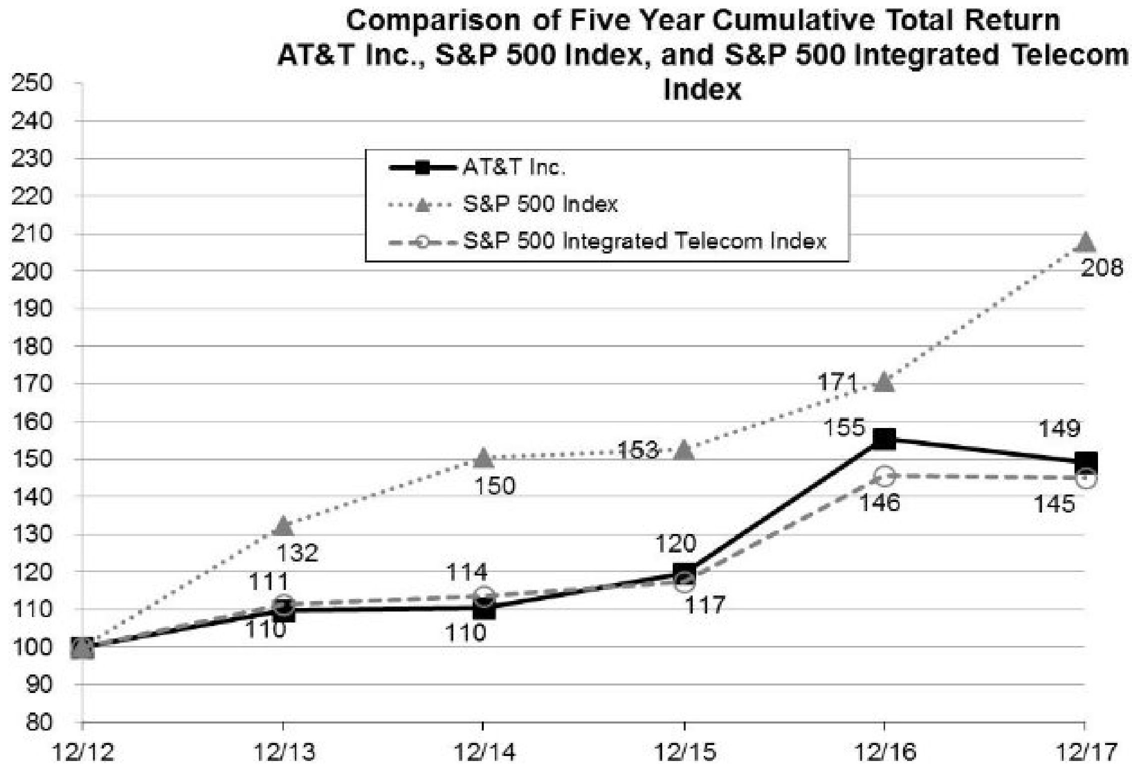
We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a portion of the exchange risk involved in anticipation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

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

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

For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of a hypothetical 10% fluctuation of the U.S. dollar against foreign currencies from the prevailing foreign currency exchange rates, assuming no change in interest rates. We had no foreign exchange forward contracts outstanding at December 31, 2017.

STOCK PERFORMANCE GRAPH



The comparison above assumes $100 invested on December 31, 2012, in AT&T common stock, Standard & Poor's 500 Index (S&P 500), and Standard & Poor's 500 Integrated Telecom Index (S&P 500 Integrated Telecom). Total return equals stock price appreciation plus reinvestment of dividends.

Dollars in millions except per share and per subscriber amounts

DISCUSSION AND RECONCILIATION OF NON-GAAP MEASURE

We believe the following measure is relevant and useful information to investors as it is used by management as a method of comparing performance with that of many of our competitors. This supplemental measure should be considered in addition to, but not as a substitute of, our consolidated and segment financial information.

Supplemental Operational Measure
We provide a supplemental discussion of our domestic wireless operations that is calculated by combining our Consumer Mobility and Business Solutions segments, and then adjusting to remove non-wireless operations. The following table presents a reconciliation of our supplemental AT&T Mobility results.

	Year Ended December 31, 2017			
	Consumer Mobility	Business Solutions	Adjustments [1]	AT&T Mobility
Operating revenues				
Wireless service	$ 26,053	$ 31,902	$ -	$ 57,955
Fixed strategic services	-	12,227	(12,227)	-
Legacy voice and data services	-	13,931	(13,931)	-
Other service and equipment	-	3,451	(3,451)	-
Wireless equipment	5,499	7,895	-	13,394
Total Operating Revenues	31,552	69,406	(29,609)	71,349
Operating expenses				
Operations and support	18,966	42,929	(18,640)	43,255
EBITDA	12,586	26,477	(10,969)	28,094
Depreciation and amortization	3,507	9,326	(4,806)	8,027
Total Operating Expense	22,473	52,255	(23,446)	51,282
Operating Income	$ 9,079	$ 17,151	$ (6,163)	$ 20,067

[1] Business wireline operations reported in Business Solutions segment.

Dollars in millions except per share and per subscriber amounts

	Year Ended December 31, 2016			
	Consumer Mobility	Business Solutions	Adjustments [1]	AT&T Mobility
Operating revenues				
Wireless service	$ 27,536	$ 31,850	$ -	$ 59,386
Fixed strategic services	-	11,431	(11,431)	-
Legacy voice and data services	-	16,370	(16,370)	-
Other service and equipment	-	3,566	(3,566)	-
Wireless equipment	5,664	7,771	-	13,435
Total Operating Revenues	33,200	70,988	(31,367)	72,821
Operating expenses				
Operations and support	19,659	44,330	(20,103)	43,886
EBITDA	13,541	26,658	(11,264)	28,935
Depreciation and amortization	3,716	9,832	(5,256)	8,292
Total Operating Expense	23,375	54,162	(25,359)	52,178
Operating Income	$ 9,825	$ 16,826	$ (6,008)	$ 20,643

[1] Business wireline operations reported in Business Solutions segment.

Dollars in millions except per share and per subscriber amounts

	Year Ended December 31, 2015			
	Consumer Mobility	Business Solutions	Adjustments [1]	AT&T Mobility
Operating revenues				
Wireless service	$ 29,150	$ 30,687	$ -	$ 59,837
Fixed strategic services	-	10,383	(10,383)	-
Legacy voice and data services	-	18,546	(18,546)	-
Other service and equipment	-	3,559	(3,559)	-
Wireless equipment	5,916	7,952	-	13,868
Total Operating Revenues	35,066	71,127	(32,488)	73,705
Operating expenses				
Operations and support	21,477	44,946	(20,634)	45,789
EBITDA	13,589	26,181	(11,854)	27,916
Depreciation and amortization	3,851	9,789	(5,527)	8,113
Total Operating Expense	25,328	54,735	(26,161)	53,902
Operating Income	$ 9,738	$ 16,392	$ (6,327)	$ 19,803

[1] Business wireline operations reported in Business Solutions segment.

RISK FACTORS

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

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

Our costs to provide current benefits and funding for future benefits are subject to increases, primarily due to continuing increases in medical and prescription drug costs, and can be affected by lower returns on funds held by our pension and other benefit plans, which are reflected in our financial statements for that year. Investment returns on these funds depend largely on trends in the U.S. securities markets and the U.S. economy. We have experienced historically low interest rates during the last several years resulting in higher benefit obligations. During 2017, favorable market returns helped to offset those obligations. In calculating the costs included on our financial statements of providing benefits under our plans, we have made certain assumptions regarding future investment returns, medical costs and interest rates. While we have made some changes to the benefit plans to limit our risk from increasing medical costs, if actual investment returns, medical costs and interest rates are worse than those previously assumed, our costs will increase.

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

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

While the global financial markets were generally stable during 2017, a continuing uncertainty surrounding global growth rates has resulted in continuing volatility in the credit, currency, equity and fixed income markets. Uncertainty regarding future U.S. trade policy and political developments in Europe and Asia could significantly affect global financial markets in 2018. Volatility in other areas, such as in emerging markets, may affect companies' access to the credit markets, leading to higher borrowing costs for companies or, in some cases, the inability of these companies to fund their ongoing operations. In addition, we contract with large financial institutions to support our own treasury operations, including contracts to hedge our exposure on interest rates and foreign exchange and the funding of credit lines and other short-term debt obligations, including commercial paper. These financial institutions also face stricter capital-related and other regulations in the United States and Europe, as well as ongoing legal and financial issues concerning their loan portfolios, which may hamper their ability to provide credit or raise the cost of providing such credit. A company's cost of borrowing is also affected by evaluations given by various credit rating agencies and these agencies have been applying tighter credit standards when evaluating a company's debt levels and future growth prospects. While we have been successful in continuing to access the credit and fixed income markets when needed, adverse changes in the financial markets could render us either unable to access these markets or able to access these markets only at higher interest costs and with restrictive financial or other conditions, severely affecting our business operations.

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

The communications and digital entertainment industry has experienced rapid changes in the past several years. The development of wireless, cable and IP technologies has significantly increased the commercial viability of alternatives to traditional wired service and enhanced the capabilities of wireless networks. In addition, our customers continue to demand services that can be accessed on mobile devices, especially video services, and are increasingly sensitive to prices for such services. While our customers can use their traditional video subscription to access mobile programming, an increasing number of customers are also using mobile devices as the primary means of viewing video and an increasing number of non-traditional video providers are developing content and technologies to satisfy that demand. In order to remain competitive, we now offer a mobile TV service and continue to upgrade our sophisticated wired and wireless networks, including satellites, as well as research other new technologies. We are spending significant capital to shift our wired network to software-based technology and preparing to launch newer wireless technology (commonly called 5G) to address these demands. If the new technologies we have adopted or on which we have focused our research efforts fail to be cost-effective and accepted by customers, our ability to remain competitive could be materially adversely affected.

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

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

Continuing growth in and the converging nature of wireless, video and broadband services will require us to deploy increasing amounts of capital and require ongoing access to spectrum in order to provide attractive services to customers.

Wireless, video and broadband services are undergoing rapid and significant technological changes and a dramatic increase in usage, in particular, the demand for faster and seamless usage of video and data across mobile and fixed devices. We must continually invest in our networks in order to improve our wireless, video and broadband services to meet this increasing demand and remain competitive. Improvements in these services depend on many factors, including continued access to and deployment of adequate spectrum and the capital needed to expand our wireline network to support transport of these services. In order to stem broadband subscriber losses to cable competitors in our non-fiber wireline areas, we have been expanding our all-fiber wireline network. We must maintain and expand our network capacity and coverage for transport of video, data and voice between cell and fixed landline sites. To this end, we have participated in spectrum auctions, at increasing financial cost, and continue to deploy technology advancements in order to further improve our network.

Network service enhancements and product launches may not occur as scheduled or at the cost expected due to many factors, including delays in determining equipment and wireless handset operating standards, supplier delays, increases in network equipment and handset component costs, regulatory permitting delays for tower sites or enhancements, or labor-related delays. Deployment of new technology also may adversely affect the performance of the network for existing services. If we cannot acquire needed spectrum or deploy the services customers desire on a timely basis and at adequate cost, then our ability to attract and retain customers, and therefore maintain and improve our operating margins, could be materially adversely affected.

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

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

Increasing costs to provide services could adversely affect operating margins.

Our operating costs, including customer acquisition and retention costs, could continue to put pressure on margins and customer retention levels. In addition, virtually all our video programming is provided by other companies and historically the rates they charge us for programming have often increased more than the rate of inflation. As an offsetting factor, we have announced an agreement to acquire Time Warner Inc., a global leader in media and entertainment content. In late 2017, the DOJ filed a lawsuit challenging our proposed acquisition of Time Warner. We also are attempting to use our increased scale and access to wireless customers to change this trend but such negotiations are difficult and also may result in programming disruption. If we are unable to restrain these costs or provide programming desired by our customers, it could impact margins and our ability to attract and retain customers.

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

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

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

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

Cyber attacks, major equipment failures or natural disasters, including severe weather, terrorist acts or other breaches of network or IT security that affect our wireline and wireless networks, including software and switches, microwave links, third-party-owned local and long-distance networks on which we rely, our cell sites or other equipment, our video satellites, our customer account support and information systems, or employee and business records could have a material adverse effect on our operations. Our wired network in particular is becoming increasingly reliant on software as it evolves to handle increasing demands for video transmission. While we have been subject to security breaches or cyber attacks, these did not result in a material adverse effect on our operations. However, as such attacks continue to increase in scope and frequency, we may be unable to prevent a significant attack in the future. Our ability to maintain and upgrade our video programming also depends on our ability to successfully deploy and operate video satellites. Our inability to deploy or operate our networks or customer support systems could result in significant expenses, potential legal liability, a loss of current or future customers and reputation damage, any of which could have a material adverse effect on our operations and financial condition.

The impact of our pending acquisition of Time Warner, including the pending lawsuit by the U.S. Department of Justice to halt the merger; the risk that, even if we prevail on the lawsuit the businesses and assets will not be integrated as successfully as projected; our costs in financing the acquisition and potential adverse effects on our share price and dividend amount due to the issuance of additional shares; the addition of Time Warner's existing debt to our balance sheet; disruption from the acquisition making it more difficult to maintain relationships with customers, employees or suppliers; and competition and its effect on pricing, spending, third-party relationships and revenues.

As discussed in "Other Business Matters," in October 2016, we agreed to acquire Time Warner. We believe that the acquisition will give us the scale, resources and ability to deploy video content more efficiently to more customers than otherwise possible and to provide very attractive integrated offerings of video, broadband and wireless services; compete more effectively against other video providers as well as other technology, media and communications companies; and produce cost savings and other potential synergies.

In late 2017, the DOJ filed a lawsuit to prevent the merger and trial is scheduled for late March. The continuing uncertainty regarding closing could divert attention from ongoing operations on the part of management and employees, adversely affecting customers and suppliers and therefore revenues. If we are successful in closing the deal, then we must integrate a large number of operational and administrative systems, which may involve significant management time and create uncertainty for employees, customers and suppliers. The integration process may also result in significant expenses and charges against earnings, both cash and noncash. While we have successfully merged large companies into our operations in the past, delays in the process could have a material adverse effect on our revenues, expenses, operating results and financial condition. This acquisition also will increase the amount of debt on our balance sheet (both Time Warner's debt and the indebtedness needed to pay a portion of the purchase price) leading to additional interest expense and, due to additional shares being issued, will result in additional cash being required for any dividends declared. Both of these factors could put pressure on our financial flexibility to continue capital investments, develop new services and declare future dividends. In addition, events outside of our control, including changes in regulation and laws as well as economic trends, could adversely affect our ability to realize the expected benefits from this acquisition.

Our international operations have increased our exposure to both changes in the international economy and to the level of regulation on our business and these risks could offset our expected growth opportunities.

In recent years we have increased the magnitude of our international operations, particularly in Mexico and the rest of Latin America. We need to comply with a wide variety of new and complex local laws, regulations and treaties and government involvement in private business activity. We are now exposed to restrictions on cash repatriation, foreign exchange controls, fluctuations in currency values, changes in relationships between U.S. and foreign governments, trade restrictions including potential border taxes, and other regulations that may affect materially our earnings. Our Mexico operations in particular rely on a continuation of a regulatory regime that fosters competition. While the countries involved represent significant opportunities to sell our advanced services, a number of these same countries have experienced unstable growth patterns and at times have experienced high inflation, currency devaluation, foreign exchange controls, instability in the banking sector and high unemployment. Should these conditions persist, customers in these countries may be unable to purchase the services we offer or pay for services already provided.

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

Increases in our debt levels to fund acquisitions, additional spectrum purchases, or other strategic decisions could adversely affect our ability to finance future debt at attractive rates and reduce our ability to respond to competition and adverse economic trends.

We have increased the amount of our debt over the last three years to fund completed and pending acquisitions, as well as spectrum purchases needed to compete in our industry. While we believe such decisions were prudent and necessary to take advantage of both growth opportunities and respond to industry developments, we did experience credit-rating downgrades from historical levels. Banks and potential purchasers of our publicly-traded debt may decide that these strategic decisions and similar actions we may take in the future, as well as expected trends in the industry, will continue to increase the risk of investing in our debt and may demand a higher rate of interest, impose restrictive covenants or otherwise limit the amount of potential borrowing.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

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

AT&T Inc.
Consolidated Statements of Income
Dollars in millions except per share amounts

	2017	2016	2015
Operating Revenues			
Service	**$ 145,597**	$ 148,884	$ 131,677
Equipment	**14,949**	14,902	15,124
Total operating revenues	**160,546**	163,786	146,801
Operating Expenses			
Cost of services and sales			
Equipment	**18,709**	18,757	19,268
Broadcast, programming and operations	**21,159**	19,851	11,996
Other cost of services (exclusive of depreciation and amortization shown separately below)	**37,511**	38,276	35,782
Selling, general and administrative	**34,917**	36,347	32,919
Asset abandonments and impairments	**2,914**	361	35
Depreciation and amortization	**24,387**	25,847	22,016
Total operating expenses	**139,597**	139,439	122,016
Operating Income	**20,949**	24,347	24,785
Other Income (Expense)			
Interest expense	**(6,300)**	(4,910)	(4,120)
Equity in net income (loss) of affiliates	**(128)**	98	79
Other income (expense) – net	**618**	277	(52)
Total other income (expense)	**(5,810)**	(4,535)	(4,093)
Income Before Income Taxes	**15,139**	19,812	20,692
Income tax (benefit) expense	**(14,708)**	6,479	7,005
Net Income	**29,847**	13,333	13,687
Less: Net Income Attributable to Noncontrolling Interest	**(397)**	(357)	(342)
Net Income Attributable to AT&T	**$ 29,450**	$ 12,976	$ 13,345
Basic Earnings Per Share Attributable to AT&T	**$ 4.77**	$ 2.10	$ 2.37
Diluted Earnings Per Share Attributable to AT&T	**$ 4.76**	$ 2.10	$ 2.37

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

AT&T Inc.
Consolidated Statements of Comprehensive Income
Dollars in millions

	2017	2016	2015
Net income	**$ 29,847**	$ 13,333	$ 13,687
Other comprehensive income, net of tax:			
Foreign Currency:			
Foreign currency translation adjustment (includes $(5), $20 and $(16) attributable to noncontrolling interest), net of taxes of $123, $357 and $(595)	**15**	(777)	(1,188)
Available-for-sale securities:			
Net unrealized gains, net of taxes of $109, $36 and $0	**187**	58	-
Reclassification adjustment included in net income, net of taxes of $(117), $(1) and $(9)	**(185)**	(1)	(15)
Cash flow hedges:			
Net unrealized gains (losses), net of taxes of $200, $371 and $(411)	**371**	690	(763)
Reclassification adjustment included in net income, net of taxes of $21, $21 and $20	**39**	38	38
Defined benefit postretirement plans:			
Net prior service credit arising during period, net of taxes of $675, $305 and $27	**1,083**	497	45
Amortization of net prior service credit included in net income, net of taxes of $(604), $(525) and $(523)	**(988)**	(858)	(860)
Other comprehensive income (loss)	**522**	(353)	(2,743)
Total comprehensive income	**30,369**	12,980	10,944
Less: Total comprehensive income attributable to noncontrolling interest	**(392)**	(377)	(326)
Total Comprehensive Income Attributable to AT&T	**$ 29,977**	$ 12,603	$ 10,618

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

AT&T Inc.
Consolidated Balance Sheets
Dollars in millions except per share amounts

	December 31, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	**$ 50,498**	$ 5,788
Accounts receivable - net of allowances for doubtful accounts of $663 and $661	**16,522**	16,794
Prepaid expenses	**1,369**	1,555
Other current assets	**10,757**	14,232
Total current assets	**79,146**	38,369
Property, Plant and Equipment – Net	**125,222**	124,899
Goodwill	**105,449**	105,207
Licenses	**96,136**	94,176
Customer Lists and Relationships – Net	**10,676**	14,243
Other Intangible Assets – Net	**7,464**	8,441
Investments in Equity Affiliates	**1,560**	1,674
Other Assets	**18,444**	16,812
Total Assets	**$ 444,097**	$ 403,821
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 38,374**	$ 9,832
Accounts payable and accrued liabilities	**34,470**	31,138
Advanced billings and customer deposits	**4,213**	4,519
Accrued taxes	**1,262**	2,079
Dividends payable	**3,070**	3,008
Total current liabilities	**81,389**	50,576
Long-Term Debt	**125,972**	113,681
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**43,207**	60,128
Postemployment benefit obligation	**31,775**	33,578
Other noncurrent liabilities	**19,747**	21,748
Total deferred credits and other noncurrent liabilities	**94,729**	115,454
Stockholders' Equity		
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2017 and 2016: issued 6,495,231,088 at December 31, 2017 and 2016)	**6,495**	6,495
Additional paid-in capital	**89,563**	89,604
Retained earnings	**50,500**	34,734
Treasury stock (355,806,544 at December 31, 2017 and 356,237,141 at December 31, 2016, at cost)	**(12,714)**	(12,659)
Accumulated other comprehensive income	**7,017**	4,961
Noncontrolling interest	**1,146**	975
Total stockholders' equity	**142,007**	124,110
Total Liabilities and Stockholders' Equity	**$ 444,097**	$ 403,821

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

AT&T Inc.
Consolidated Statements of Cash Flows
Dollars in millions

	2017	2016	2015
Operating Activities			
Net income	**$ 29,847**	$ 13,333	$ 13,687
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**24,387**	25,847	22,016
Undistributed earnings from investments in equity affiliates	**174**	(37)	(49)
Provision for uncollectible accounts	**1,642**	1,474	1,416
Deferred income tax (benefit) expense	**(15,940)**	2,947	4,117
Net (gain) loss from sale of investments, net of impairments	**(282)**	(169)	91
Actuarial loss (gain) on pension and postretirement benefits	**1,258**	1,024	(2,152)
Asset abandonments and impairments	**2,914**	361	35
Changes in operating assets and liabilities:			
Accounts receivable	**(986)**	(1,003)	30
Other current assets	**(777)**	1,708	(1,182)
Accounts payable and other accrued liabilities	**816**	118	1,354
Equipment installment receivables and related sales	**(263)**	(576)	(3,023)
Deferred fulfillment costs	**(1,422)**	(2,359)	(1,437)
Retirement benefit funding	**(1,066)**	(910)	(735)
Other – net	**(1,151)**	(2,414)	1,712
Total adjustments	**9,304**	26,011	22,193
Net Cash Provided by Operating Activities	**39,151**	39,344	35,880
Investing Activities			
Capital expenditures:			
Purchase of property and equipment	**(20,647)**	(21,516)	(19,218)
Interest during construction	**(903)**	(892)	(797)
Acquisitions, net of cash acquired	**1,123**	(2,959)	(30,759)
Dispositions	**59**	646	83
Sales (purchases) of securities, net	**(4)**	506	1,545
Other	**1**	-	2
Net Cash Used in Investing Activities	**(20,371)**	(24,215)	(49,144)
Financing Activities			
Issuance of long-term debt	**48,793**	10,140	33,969
Repayment of long-term debt	**(12,339)**	(10,823)	(10,042)
Purchase of treasury stock	**(463)**	(512)	(269)
Issuance of treasury stock	**33**	146	143
Dividends paid	**(12,038)**	(11,797)	(10,200)
Other	**1,944**	(1,616)	(3,819)
Net Cash Provided by (Used in) Financing Activities	**25,930**	(14,462)	9,782
Net increase (decrease) in cash and cash equivalents	**44,710**	667	(3,482)
Cash and cash equivalents beginning of year	**5,788**	5,121	8,603
Cash and Cash Equivalents End of Year	**$ 50,498**	$ 5,788	$ 5,121

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

AT&T Inc.
Consolidated Statements of Changes in Stockholders' Equity
Dollars and shares in millions except per share amounts

	2017			2016			2015		
	Shares		**Amount**	Shares		Amount	Shares		Amount
Common Stock									
Balance at beginning of year	**6,495**	**$**	**6,495**	6,495	$	6,495	6,495	$	6,495
Issuance of stock	**-**		**-**	-		-	-		-
Balance at end of year	**6,495**	**$**	**6,495**	6,495	$	6,495	6,495	$	6,495
Additional Paid-In Capital									
Balance at beginning of year		**$**	**89,604**		$	89,763		$	91,108
Issuance of treasury stock			**2**			(43)			(1,597)
Share-based payments			**(43)**			(140)			252
Change related to acquisition of interests held by noncontrolling owners			**-**			24			-
Balance at end of year		**$**	**89,563**		$	89,604		$	89,763
Retained Earnings									
Balance at beginning of year		**$**	**34,734**		$	33,671		$	31,081
Net income attributable to AT&T ($4.76, $2.10 and $2.37 per diluted share)			**29,450**			12,976			13,345
Dividends to stockholders ($1.97, $1.93 and $1.89 per share)			**(12,157)**			(11,913)			(10,755)
Other			**(1,527)**			-			-
Balance at end of year		**$**	**50,500**		$	34,734		$	33,671
Treasury Stock									
Balance at beginning of year	**(356)**	**$**	**(12,659)**	(350)	$	(12,592)	(1,308)	$	(47,029)
Repurchase of common stock	**(14)**		**(551)**	(17)		(655)	(8)		(278)
Issuance of treasury stock	**14**		**496**	11		588	966		34,715
Balance at end of year	**(356)**	**$**	**(12,714)**	(356)	$	(12,659)	(350)	$	(12,592)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:									
Balance at beginning of year		**$**	**4,961**		$	5,334		$	8,061
Other comprehensive income (loss) attributable to AT&T			**527**			(373)			(2,727)
Amounts reclassified to retained earnings			**1,529**			-			-
Balance at end of year		**$**	**7,017**		$	4,961		$	5,334
Noncontrolling Interest:									
Balance at beginning of year		**$**	**975**		$	969		$	554
Net income attributable to noncontrolling interest			**397**			357			342
Distributions			**(361)**			(346)			(294)
Acquisitions of noncontrolling interests			**140**			-			383
Acquisition of interests held by noncontrolling owners			**-**			(25)			-
Translation adjustments attributable to noncontrolling interest, net of taxes			**(5)**			20			(16)
Balance at end of year		**$**	**1,146**		$	975		$	969
Total Stockholders' Equity at beginning of year		**$**	**124,110**		$	123,640		$	90,270
Total Stockholders' Equity at end of year		**$**	**142,007**		$	124,110		$	123,640

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

Notes to Consolidated Financial Statements
Dollars in millions except per share amounts

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates, 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 translation adjustments. We treat distributions received from equity method investees as returns on investment and classify them as cash flows from operating activities until those distributions exceed our cumulative equity in the earnings of that investment. We treat the excess amount as a return of investment and classify it as cash flows from investing activities.

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.

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.

We have included the estimated impact of the recently enacted tax reform in our financial results at or for the period ended December 31, 2017. The Securities and Exchange Commission has issued guidance that provides a "measurement period" whereby registrants can provide a reasonable estimate of the tax reform impact in their financial statements but can adjust that amount during the measurement period (expected to be a year or less). Our future results could include additional adjustments, and those adjustments could be material. (See Note 11)

As of January 1, 2017, we adopted Accounting Standards Update (ASU) No. 2016-16, "Income Taxes (Topic 740)" (ASU 2016-16), with modified retrospective application, resulting in our recognition of an immaterial adjustment to retained earnings. Under ASU 2016-16, we recognize the income tax effects of intercompany sales or transfers of assets other than inventory (e.g., intellectual property or property, plant and equipment) during the period of intercompany sale or transfer instead of the period of either sale or transfer to a third party or recognition of depreciation or impairment.

Accumulated Other Comprehensive Income In February 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-02, "Income Statement– Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" (ASU 2018-02), which allows entities the option to reclassify from accumulated other comprehensive income (accumulated OCI) to retained earnings the stranded tax effects resulting from the application of the Tax Cuts and Jobs Act (Act). We have elected to adopt ASU 2018-02 in the period in which the estimated income tax effects of the Act were recognized, reflecting a $1,529 provisional adjustment in the consolidated statements of changes in stockholders' equity. (See Note 3)

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, 2017, we held $4,156 in cash and $46,342 in money market funds and other cash equivalents. Of our total cash and cash equivalents, $1,466 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 our customers the option to purchase certain wireless devices in installments over a specified period of time and, in many cases, once certain conditions are met, they may be eligible to trade in the original equipment for a new device and have the remaining unpaid balance paid or settled. 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 collectible 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 $2,225 at December 31, 2017, and $2,039 at December 31, 2016. Wireless devices and accessories, which are valued at the lower of cost or net realizable value, were $2,160 at December 31, 2017, and $1,951 at December 31, 2016.

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. See Note 6 for a discussion of asset abandonments and impairments.

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. 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 19).

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 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.

Accounting Standards to be Adopted in 2018

The impacts of the following accounting standards adopted on January 1, 2018, will be included in our first-quarter 2018 financial statements and disclosures.

Revenue Recognition Beginning with our 2018 interim and annual reporting periods, we will adopt FASB Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," as modified (ASC 606), using the modified retrospective method. This standard replaces existing revenue recognition rules with a comprehensive revenue measurement and recognition standard and expanded disclosure requirements. Under the modified retrospective method, we will apply the rules to all open contracts existing as of January 1, 2018, recognizing in beginning retained earnings for 2018 an adjustment between $2,000 and $2,500 for the cumulative effect of the change. For interim and annual reporting for 2018, we will provide additional disclosures comparing results to previous accounting standards.

The key changes in the standard that impact our revenue recognition relate to the allocation of contract revenues between various services and equipment, the timing of when those revenues are recognized and the deferral of incremental contract acquisition costs, now recognizing them over the contract period or expected customer life. For promotional discounts which contain equipment and a service contract, revenue recognition will no longer be constrained by the contingent cap rules that limited revenue recognition to the amount received at contract inception. Rather, revenue will be allocated between delivered and undelivered products and services based on their relative standalone selling prices, resulting in more equipment revenue recognized at the point of sale and, therefore, lower service revenues.

With respect to the requirement to defer incremental contract acquisition costs and recognize them over the expected period of benefit, based on recent experience, we estimate our operating expenses will be slightly lower in the short-term, reflecting higher deferral of contract acquisition costs than amortization of previously deferred contract acquisition costs in the prior period.

With our adoption of the revenue standard, we made a policy election to record certain regulatory fees, primarily Universal Service Fund (USF) fees and recoveries, on a net basis. We expect both revenues and expenses to be lower in future periods.

Pension and Other Postretirement Benefits Beginning with our 2018 interim and annual reporting periods, we will adopt, with retrospective application, ASU No. 2017-07, "Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07), which changes the presentation of periodic benefit cost components. We will no longer present amortization of prior service credits and other components of our net periodic benefit cost in our operating expenses, but rather include those amounts in "other income (expense) – net" in our consolidated statements of income. We will continue to present service costs with the associated compensation costs within our operating results. See Note 12 for our components of net periodic benefit cost.

Cash Flows Beginning with our 2018 interim reporting, we will adopt, with retrospective application, 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. The majority of the guidance in ASU 2016-15 is consistent with our current cash flow classifications. Under ASU 2016-15, we will continue to recognize cash receipts on owned equipment installment receivables as cash flows from operations. However, with retrospective application, 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. Our cash flows from operating activities included cash receipts on the deferred purchase price of $976 for the year ended December 31, 2017, $731 for the year ended December 31, 2016 and $536 for the year ended December 31, 2015.

Beginning with 2018 interim reporting, we will adopt accounting guidance requiring a reconciliation of cash and cash equivalents (restricted and unrestricted) either on the face of the statements of cash flows or in a footnote. As of December 31, 2017, we had a restricted cash and cash equivalents balance of approximately $440.

Financial Instruments Beginning with 2018 interim reporting, we will adopt ASU No. 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01), which requires 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. As of December 31, 2017, our net unrealized gain, after taxes, on our available-for-sale equity securities was approximately $650, which we will include in our cumulative effect adjustments to retained earnings as of January 1, 2018.

Dollars in millions except per share amounts

New Accounting Standards

Leases In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," as modified (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.

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,	**2017**	2016	2015
Numerators			
Numerator for basic earnings per share:			
Net income	**$ 29,847**	$ 13,333	$ 13,687
Less: Net income attributable to noncontrolling interest	**(397)**	(357)	(342)
Net income attributable to AT&T	**29,450**	12,976	13,345
Dilutive potential common shares:			
Share-based payment	**13**	13	13
Numerator for diluted earnings per share	**$ 29,463**	$ 12,989	$ 13,358
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted-average number of common shares outstanding	**6,164**	6,168	5,628
Dilutive potential common shares:			
Share-based payment (in shares)	**19**	21	18
Denominator for diluted earnings per share	**6,183**	6,189	5,646
Basic earnings per share attributable to AT&T	**$ 4.77**	$ 2.10	$ 2.37
Diluted earnings per share attributable to AT&T	**$ 4.76**	$ 2.10	$ 2.37

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.

	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, 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
Other comprehensive income (loss) before reclassifications	20	187	371	1,083	1,661
Amounts reclassified from accumulated OCI	- [1]	(185) [1]	39 [2]	(988) [3]	(1,134)
Net other comprehensive income (loss)	20	2	410	95	527
Amounts reclassified to retained earnings [4]	(79)	117	248	1,243	1,529
Balance as of December 31, 2017	**$ (2,054)**	**$ 660**	**$ 1,402**	**$ 7,009**	**$ 7,017**

[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).
[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).
[4] With the adoption of ASU 2018-02, the stranded tax effects resulting from the application of the Tax Cuts and Jobs Act are reclassified to retained earnings (see Note 1).

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; FlexWare, a service that relies on Software Defined Networking (SDN) and Network Functions Virtualization (NFV) to provide application-based routing, and broadband, collectively referred to as fixed strategic services; as well as traditional data and voice products. We utilize our wireless and wired networks 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 IP-based and copper wired network and our satellite technology.

The *Consumer Mobility segment* provides nationwide wireless service to consumers, wholesale and resale wireless subscribers located in the United States or in U.S. territories. We utilize our network to provide voice and data services, including high-speed internet 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 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 (operations in countries with highly inflationary economies consider the U.S. dollar as the functional currency).

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 consists 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 consists 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. Our domestic communications business strategies reflect bundled product offerings that increasingly cut across product lines and utilize our asset base. Therefore, asset information and capital expenditures by segment are not presented. Depreciation is allocated based on asset utilization by segment.

Notes to Consolidated Financial Statements (continued)
Dollars in millions except per share amounts

For the year ended December 31, 2017

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Segment Contribution
Business Solutions	**$ 69,406**	**$ 42,929**	**$ 26,477**	**$ 9,326**	**$ 17,151**	**$ (1)**	**$ 17,150**
Entertainment Group	**50,698**	**39,420**	**11,278**	**5,623**	**5,655**	**(30)**	**5,625**
Consumer Mobility	**31,552**	**18,966**	**12,586**	**3,507**	**9,079**	**-**	**9,079**
International	**8,269**	**7,404**	**865**	**1,218**	**(353)**	**87**	**(266)**
Segment Total	**159,925**	**108,719**	**51,206**	**19,674**	**31,532**	**$ 56**	**$ 31,588**
Corporate and Other	**864**	**554**	**310**	**72**	**238**		
Acquisition-related items	**-**	**798**	**(798)**	**4,608**	**(5,406)**		
Certain significant items	**(243)**	**5,139**	**(5,382)**	**33**	**(5,415)**		
AT&T Inc.	**$ 160,546**	**$ 115,210**	**$ 45,336**	**$ 24,387**	**$ 20,949**		

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		

Notes to Consolidated Financial Statements (continued)
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		

Notes to Consolidated Financial Statements (continued)
Dollars in millions except per share amounts

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

	2017	2016	2015
Business Solutions	**$ 17,150**	$ 16,826	$ 16,392
Entertainment Group	**5,625**	6,104	2,000
Consumer Mobility	**9,079**	9,825	9,738
International	**(266)**	(661)	(488)
Segment Contribution	**31,588**	32,094	27,642
Reconciling Items:			
Corporate and Other	**238**	(195)	176
Merger and integration charges	**(798)**	(1,203)	(2,072)
Amortization of intangibles acquired	**(4,608)**	(5,177)	(2,712)
Actuarial gain (loss)	**(1,258)**	(1,024)	2,152
Employee separation costs	**(445)**	(344)	(375)
Tax reform special bonus	**(220)**	-	-
Gain on wireless spectrum transactions	**181**	714	-
Natural disaster costs and revenue credits	**(627)**	(67)	-
Asset abandonments and impairments	**(3,046)**	(390)	(35)
Segment equity in net income (loss) of affiliates	**(56)**	(61)	9
AT&T Operating Income	**20,949**	24,347	24,785
Interest expense	**6,300**	4,910	4,120
Equity in net income (loss) of affiliates	**(128)**	98	79
Other income (expense) - net	**618**	277	(52)
Income Before Income Taxes	**$ 15,139**	$ 19,812	$ 20,692

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

	2017		2016		2015	
	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment
United States	**$ 149,841**	**$ 118,200**	$ 154,039	$ 118,664	$ 140,234	$ 118,515
Latin America						
Brazil	**2,948**	**1,447**	2,797	1,265	1,224	1,384
Other	**2,743**	**1,294**	2,348	1,828	1,157	1,530
Mexico	**2,913**	**3,619**	2,472	2,520	2,046	2,369
Other	**2,101**	**662**	2,130	622	2,140	652
Total	**$ 160,546**	**$ 125,222**	$ 163,786	$ 124,899	$ 146,801	$ 124,450

NOTE 5. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

Auction 1000 On April 13, 2017, the FCC announced that we were the successful bidder for $910 of spectrum in 18 markets. We provided the FCC an initial deposit of $2,348 in July 2016 and received a refund of $1,438 in April 2017, which was recorded as cash from investing activities in our consolidated statement of cash flows. In the fourth quarter of 2017, we entered into an agreement to sell these wireless licenses at the auction price.

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.

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.

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.

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 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 2017, we swapped FCC licenses with a fair value of approximately $2,003 with other carriers and recorded a net gain of $181. 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.

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 December 31, 2017, the total transaction value is approximately $106,523. 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.

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. The transaction has been approved by all requisite foreign jurisdictions. On November 20, 2017, the U.S. Department of Justice filed a civil antitrust lawsuit against AT&T, challenging our proposed acquisition of Time Warner. The case will be heard in the U.S. District Court for the District of Columbia on March 19, 2018. On December 21, 2017, an agreement was reached with Time Warner to extend the original termination date of April 22, 2018 to June 21, 2018. If the Merger is terminated as a result of reaching the extended 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.

Dollars in millions except per share amounts

Dispositions

YP Holdings LLC In June 2017, YP Holdings LLC was acquired by Dex Media. Our results include a gain of $36 for our portion of the proceeds.

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

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

	Lives (years)	**2017**	2016
Land	-	**$ 1,630**	$ 1,643
Buildings and improvements	2-44	**36,319**	35,036
Central office equipment [1]	3-10	**94,076**	92,954
Cable, wiring and conduit	15-50	**67,695**	79,279
Satellites	14-17	**2,967**	2,710
Other equipment	3-20	**90,017**	88,436
Software	3-5	**16,750**	14,472
Under construction	-	**4,045**	5,118
		313,499	319,648
Accumulated depreciation and amortization		**188,277**	194,749
Property, plant and equipment - net		**$ 125,222**	$ 124,899

[1] Includes certain network software.

Our depreciation expense was $19,761 in 2017, $20,661 in 2016 and $19,289 in 2015. Depreciation expense included amortization of software totaling $2,810 in 2017, $2,362 in 2016 and $1,660 in 2015.

During the fourth quarter of 2017, we determined that certain copper assets will not be necessary to support future network activity due to fiber deployment plans in particular markets. We recorded a noncash pretax charge of $2,883 to abandon these assets.

D uring 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 .

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were $4,953 for 2017, $4,482 for 2016 and $5,025 for 2015. At December 31, 2017, the future minimum rental payments under noncancelable operating leases for the years 2018 through 2022 were $3,945, $3,686, $3,414, $2,968 and $2,659, with $9,256 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. At December 31, 2017, the present value of the future minimum rental payments under capital leases for the years 2018 through 2022 were $142, $90, $100, $103 and $115, with $1,268 due thereafter.

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	Total
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
Goodwill acquired	-	210	-	-	210
Foreign currency translation adjustments	-	12	-	(30)	(18)
Other	31	5	14	-	50
Balance as of December 31, 2017	**$ 45,395**	**$ 39,280**	**$ 16,540**	**$ 4,234**	**$ 105,449**

The majority of our goodwill acquired during 2017 related to our acquisition of INVIDI Technologies, a leading provider in addressable advertising platforms, the final valuation of Quickplay Media and other adjustments. Other changes to our goodwill in 2017 include foreign currency translation adjustments.

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.

Notes to Consolidated Financial Statements (continued)
Dollars in millions except per share amounts

Our other intangible assets are summarized as follows:

	December 31, 2017			December 31, 2016		
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	**$ 764**	**$ -**	**$ 683**	$ 942	$ -	$ 715
BellSouth Corporation	**2,370**	**-**	**2,370**	4,450	-	4,429
DIRECTV	**19,551**	**(141)**	**8,950**	19,547	(125)	5,618
AT&T Corp.	**33**	**-**	**29**	33	-	26
Mexican wireless	**506**	**(97)**	**278**	506	(108)	214
Subtotal	**23,224**	**(238)**	**12,310**	25,478	(233)	11,002
Trade names	**2,942**	**(6)**	**2,366**	2,942	(7)	1,394
Other	**781**	**(3)**	**335**	707	(3)	283
Total	**$ 26,947**	**$ (247)**	**$ 15,011**	$ 29,127	$ (243)	$ 12,679

	December 31, 2017	December 31, 2016
Indefinite-lived intangible assets not subject to amortization:		
Licenses:		
Wireless licenses	**$ 84,434**	$ 82,474
Orbital slots	**11,702**	11,702
Trade names	**6,451**	6,479
Total	**$ 102,587**	$ 100,655

Dollars in millions except per share amounts

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 $4,626 for the year ended December 31, 2017, $5,186 for the year ended December 31, 2016 and $2,728 for the year ended December 31, 2015. Amortization expense is estimated to be $3,002 in 2018, $2,489 in 2019, $2,009 in 2020, $1,535 in 2021, and $1,074 in 2022.

In 2017, we wrote off approximately $2,273 of fully amortized intangible assets (primarily customer lists). In 2016, we wrote off approximately $117 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, 2017 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 49.8% 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:

	2017	2016
Beginning of year	**$ 1,674**	$ 1,606
Additional investments	**51**	208
Equity in net income (loss) of affiliates	**(128)**	98
Dividends and distributions received	**(46)**	(61)
Currency translation adjustments	**22**	(156)
Other adjustments	**(13)**	(21)
End of year	**$ 1,560**	$ 1,674

Dollars in millions except per share amounts

NOTE 9. DEBT

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

			2017		2016
Notes and debentures [1]					
Interest Rates	Maturities [2]				
0.49% – 2.99%	2017 – 2022	**$**	**20,534**	$	26,396
3.00% – 4.99%	2017 – 2049		**93,915**		66,520
5.00% – 6.99%	2017 – 2095		**46,343**		26,883
7.00% – 9.50%	2017 – 2097		**4,579**		5,050
Other			**680**		4
Fair value of interest rate swaps recorded in debt			**(20)**		48
			166,031		124,901
Unamortized (discount) premium - net			**(2,968)**		(2,201)
Unamortized issuance costs			**(537)**		(319)
Total notes and debentures			**162,526**		122,381
Capitalized leases			**1,818**		869
Other			**-**		259
Total long-term debt, including current maturities			**164,344**		123,509
Current maturities of long-term debt			**(38,372)**		(9,828)
Total long-term debt		**$**	**125,972**	$	113,681

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, Mexican peso and Brazilian real denominated debt of approximately $37,621 and $24,292 at December 31, 2017 and 2016. The weighted-average interest rate of our entire long-term debt portfolio, including the impact of derivatives, increased from 4.2% at December 31, 2016 to 4.4% at December 31, 2017.

Current maturities of long-term debt include debt that may be put back to us by the holders in 2018. 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 and partially exchanged in the 2017 debt exchange offers) is held to maturity, the redemption amount will be $592.

We also have $30,154 of notes subject to mandatory redemption if our acquisition of Time Warner is not completed by April 22, 2018. The terms of these notes require a redemption price equal to 101% of the principal amount of the notes, plus accrued but unpaid interest. In light of the civil antitrust lawsuit challenging our proposed acquisition of Time Warner (see Note 5), we have classified the notes subject to mandatory redemption as current maturities at December 31, 2017. On February 15, 2018, we announced private offers to exchange five series of Euro (face value of €5,250) and British pound sterling (face value of £1,000) denominated notes subject to mandatory redemption for new notes that are not subject to mandatory redemption and cash. The new notes are Euro and British pound sterling denominated global notes with either a floating rate or stated rates between 1.050% and 3.550%. The exchange is expected to settle on February 27, 2018.

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

		2017		2016
Current maturities of long-term debt	**$**	**38,372**	$	9,828
Bank borrowings [1]		**2**		4
Total	**$**	**38,374**	$	9,832

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

Dollars in millions except per share amounts

Financing Activities

During 2017, we received net proceeds of $48,793 on the issuance of $49,161 in long-term debt in various markets, with an average weighted maturity of approximately 18 years and a weighted average coupon of 4.35%. We redeemed $12,339 in borrowings of various notes with stated rates of 1.40% to 5.79%.

Debt Exchange

On December 1, 2017, we completed two exchange offers. In the first exchange offer, approximately $5,448 of notes issued by AT&T Inc., DIRECTV Holdings LLC and DIRECTV Financing Co., Inc., due between 2020 and 2023 with stated rates of zero-coupon to 5.200%, were tendered and accepted in exchange for $5,605 of two new series of AT&T Inc. global notes with stated rates of 4.100% and 4.300%. In the second exchange offer, approximately $3,726 of notes issued by AT&T Inc. or one of its subsidiaries, due between 2022 and 2097 with stated rates of 5.850% to 8.750%, were tendered and accepted in exchange for $3,736 of new AT&T Inc. global notes with stated rates of 5.150% to 8.750% plus a $449 cash payment.

As of December 31, 2017 and 2016, 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, 2017, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2018	2019	2020	2021	2022	Thereafter
Debt repayments [1]	$ 37,836	$ 8,793	$ 7,464	$ 8,465	$ 9,690	$ 95,631
Weighted-average interest rate	4.2%	3.5%	2.9%	3.6%	3.2%	4.8%

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

Credit Facilities

General

On September 29, 2017, we entered into a five-year $2,250 syndicated term loan credit agreement (the "Nova Scotia Credit Agreement") containing (i) a $750 term loan facility (the "Tranche A Facility"), (ii) a $750 term loan facility (the "Tranche B Facility") and (iii) a $750 term loan facility (the "Tranche C Facility"), with certain investment and commercial banks and The Bank of Nova Scotia, as administrative agent. No amounts are outstanding under the Tranche A Facility, the Tranche B Facility or the Tranche C Facility as of December 31, 2017.

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, 2017, 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. 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. On September 5, 2017, we repaid all of the amounts outstanding under our $9,155 syndicated credit agreement and terminated the facility.

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"), which was subsequently reduced to $30,000. In September 2017, following the completion of our acquisition-related debt issuances, we reduced the commitments under the Bridge Loan to $0 and terminated the facility.

On November 15, 2016, we entered into a $10,000 term loan credit agreement (the "Term Loan") with a syndicate of 20 lenders. No amounts will be borrowed under the Term Loan prior to the closing of the Time Warner merger. Borrowings 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 the Term Loan. On February 2, 2018, we amended the Term Loan to extend the commitment termination date to December 31, 2018 and increase the commitments to $16,175.

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.

Nova Scotia Credit Agreement
The obligations of the lenders to advance funds under the Nova Scotia Credit Agreement will end on January 31, 2018, unless prior to that date either: (i) AT&T reduces to $0 the commitments of the lenders, or (ii) certain events of default occur.

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 Scotiabank, (b) 0.50% per annum above the Federal funds rate, and (c) the ICE Benchmark Administration Limited Settlement Rate applicable to U.S. dollars for a period of one month plus 1.00% per annum, plus (2) an applicable margin (as set forth in the Nova Scotia Credit Agreement); or
- at a rate equal to: (i) LIBOR for a period of three or six months, as applicable, plus (ii) an applicable margin (as set forth in the Nova Scotia Credit Agreement).

We will pay a facility fee of 0.070% per annum of the amount of lender commitments.

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.

Term Loan
Under the Term Loan, there are two tranches of commitments, each in a total amount of $8,087.

The obligations of the lenders under the Term Loan to provide advances will terminate on the earliest of (i) December 31, 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.

Dollars in millions except per share amounts

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, 2016.

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, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures [1]	**$ 162,526**	**$ 171,938**	$ 122,381	$ 128,726
Bank borrowings	**2**	**2**	4	4
Investment securities	**2,447**	**2,447**	2,587	2,587

[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.

Notes to Consolidated Financial Statements (continued)
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Following is the fair value leveling for available-for-sale securities and derivatives as of December 31, 2017, and December 31, 2016. Derivatives designated as hedging instruments are reflected as "Other assets," "Other noncurrent liabilities" and, for a portion of interest rate swaps, "Other current assets" on our consolidated balance sheets.

	December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-Sale Securities				
Domestic equities	**$ 1,142**	**$ -**	**$ -**	**$ 1,142**
International equities	**321**	**-**	**-**	**321**
Fixed income bonds	**-**	**733**	**-**	**733**
Asset Derivatives				
Interest rate swaps	**-**	**17**	**-**	**17**
Cross-currency swaps	**-**	**1,753**	**-**	**1,753**
Liability Derivatives				
Interest rate swaps	**-**	**(31)**	**-**	**(31)**
Cross-currency swaps	**-**	**(1,290)**	**-**	**(1,290)**

	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				
Interest rate swaps	-	79	-	79
Cross-currency swaps	-	89	-	89
Liability Derivatives				
Interest rate swaps	-	(14)	-	(14)
Cross-currency swaps	-	(3,867)	-	(3,867)

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 $1 have maturities of less than one year, $191 within one to three years, $31 within three to five years, and $510 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, 2017, and December 31, 2016, 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, 2017, and December 31, 2016, 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 $58 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, 2017, and December 31, 2016, 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, 2017, we had posted collateral of $495 (a deposit asset) and held collateral of $968 (a receipt liability). 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 $107. If DIRECTV Holdings LLC's credit rating had been downgraded below BBB- (S&P), we would owe an additional $160. At December 31, 2016, we had posted collateral of $3,242 (a deposit asset) and held no collateral. We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) exists, against the fair value of the derivative instruments.

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Following are the notional amounts of our outstanding derivative positions:

	2017	2016
Interest rate swaps	$ **9,833**	$ 9,650
Cross-currency swaps	**38,694**	29,642
Total	$ **48,527**	$ 39,292

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,	2017	2016	2015
Interest rate swaps (Interest expense):			
Gain (Loss) on interest rate swaps	$ **(68)**	$ (61)	$ (16)
Gain (Loss) on long-term debt	**68**	61	16

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,	2017	2016	2015
Cross-currency swaps:			
Gain (Loss) recognized in accumulated OCI	$ **571**	$ 1,061	$ (813)
Interest rate locks:			
Gain (Loss) recognized in accumulated OCI	**-**	-	(361)
Interest income (expense) reclassified from accumulated OCI into income	**(60)**	(59)	(58)

NOTE 11. INCOME TAXES

The Tax Cuts and Jobs Acts (the Act) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate income tax rate from 35% to 21% and requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. ASC 740, "Income Taxes," requires that effects of changes in tax rates to be recognized in the period enacted. Recognizing the late enactment of the Act and complexity of accurately accounting for its impact, the Securities and Exchange Commission in SAB 118 provided guidance that allows registrants to provide a reasonable estimate of the Act in their financial statements and adjust the reported impact in a measurement period not to exceed one year.

As of December 31, 2017, we have not completed our accounting for the tax effects of the Act; however, a reasonable estimate was made to remeasure most of our deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future as a result of the reduction in the federal tax rate, and we recorded a provisional amount for our one-time transition tax liability. In some cases, we have not been able to complete the analysis to allow us to make a reasonable estimate and continue to account for those items based on our existing accounting under ASC 740 and the provisions of the tax laws that were in effect prior to enactment of the Act. We continue to make and refine our calculations as additional analysis is completed. The provisional tax benefit recorded of $20,271 related to the remeasurement of our deferred tax balances and other impacts of the Act and resulted in a reduction to our current and deferred tax liabilities with a corresponding reduction to total income tax expense.

We are still analyzing the Act and refining our calculation, which could materially impact the measurement of our tax balances. The 2017 impact of the enactment of the Act is reflected in the tables below.

Notes to Consolidated Financial Statements (continued)
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Significant components of our deferred tax liabilities (assets) are as follows at December 31:

	2017	2016
Depreciation and amortization	**$ 30,982**	$ 44,903
Licenses and nonamortizable intangibles	**16,129**	22,892
Employee benefits	**(6,202)**	(10,045)
Deferred fulfillment costs	**2,472**	3,204
Net operating loss and other carryforwards	**(6,067)**	(4,304)
Other – net	**1,222**	(216)
Subtotal	**38,536**	56,434
Deferred tax assets valuation allowance	**4,640**	2,283
Net deferred tax liabilities	**$ 43,176**	$ 58,717
Noncurrent deferred tax liabilities	**$ 43,207**	$ 60,128
Less: Noncurrent deferred tax assets	**(31)**	(1,411)
Net deferred tax liabilities	**$ 43,176**	$ 58,717

At December 31, 2017, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of $240, state of $916 and foreign of $2,770, expiring through 2037. Additionally, we had federal credit carryforwards of $381 and state credit carryforwards of $1,760, expiring primarily through 2037.

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, 2017 and 2016 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 2017 and 2016 is as follows:

Federal, State and Foreign Tax	2017	2016
Balance at beginning of year	**$ 6,516**	$ 6,898
Increases for tax positions related to the current year	**1,438**	318
Increases for tax positions related to prior years	**200**	473
Decreases for tax positions related to prior years	**(461)**	(1,168)
Lapse of statute of limitations	**(28)**	(25)
Settlements	**(23)**	50
Foreign currency effects	**6**	(30)
Balance at end of year	**7,648**	6,516
Accrued interest and penalties	**1,333**	1,140
Gross unrecognized income tax benefits	**8,981**	7,656
Less: Deferred federal and state income tax benefits	**(388)**	(557)
Less: Tax attributable to timing items included above	**(2,368)**	(3,398)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	**$ 6,225**	$ 3,701

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 $3,058 at December 31, 2017 and $3,084 at December 31, 2016.

Notes to Consolidated Financial Statements (continued)
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Accrued interest and penalties included in UTBs were $1,333 as of December 31, 2017, and $1,140 as of December 31, 2016. We record interest and penalties related to federal, state and foreign UTBs in income tax expense. The net interest and penalty expense included in income tax expense was $107 for 2017, $24 for 2016 and $83 for 2015.

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:

		2017		2016		2015
Federal:						
Current	**$**	**682**	$	2,915	$	2,496
Deferred		**(17,970)**		3,127		3,828
		(17,288)		6,042		6,324
State and local:						
Current		**79**		282		72
Deferred		**1,041**		339		671
		1,120		621		743
Foreign:						
Current		**471**		335		320
Deferred		**989**		(519)		(382)
		1,460		(184)		(62)
Total	**$**	**(14,708)**	$	6,479	$	7,005

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

		2017		2016		2015
U.S. income before income taxes	**$**	**16,438**	$	20,911	$	21,519
Foreign income (loss) before income taxes		**(1,299)**		(1,099)		(827)
Total	**$**	**15,139**	$	19,812	$	20,692

A reconciliation of income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate (35% for 2017, 2016 and 2015) to income from continuing operations before income taxes is as follows:

		2017		2016		2015
Taxes computed at federal statutory rate	**$**	**5,299**	$	6,934	$	7,242
Increases (decreases) in income taxes resulting from:						
State and local income taxes – net of federal income tax benefit		**509**		416		483
Enactment of the Tax Cuts and Jobs Act		**(20,271)**		-		-
Mexico restructuring		**-**		(471)		-
Other – net		**(245)**		(400)		(720)
Total	**$**	**(14,708)**	$	6,479	$	7,005
Effective Tax Rate		**(97.2)%**		32.7%		33.9%

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

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balance pension programs that include annual or monthly credits based on salary as well as interest credits, 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.

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.

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

	Pension Benefits		Postretirement Benefits	
	2017	2016	**2017**	2016
Benefit obligation at beginning of year	**$ 56,183**	$ 55,464	**$ 26,027**	$ 27,898
Service cost - benefits earned during the period	**1,128**	1,112	**138**	192
Interest cost on projected benefit obligation	**1,936**	1,980	**809**	972
Amendments	**48**	(206)	**(1,807)**	(600)
Actuarial (gain) loss	**3,696**	1,485	**630**	(529)
Special termination benefits	**3**	-	**1**	-
Benefits paid	**(3,705)**	(3,614)	**(1,739)**	(1,941)
Plan transfers	**5**	(38)	**-**	35
Benefit obligation at end of year	**$ 59,294**	$ 56,183	**$ 24,059**	$ 26,027

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	
	2017	2016	**2017**	2016
Fair value of plan assets at beginning of year	**$ 42,610**	$ 42,195	**$ 5,921**	$ 6,671
Actual return on plan assets	**5,987**	3,123	**607**	407
Benefits paid [1]	**(3,705)**	(3,614)	**(1,055)**	(1,156)
Contributions	**566**	910	**500**	-
Plan transfers and other	**5**	(4)	**-**	(1)
Fair value of plan assets at end of year [3]	**45,463**	42,610	**5,973**	5,921
Unfunded status at end of year [2]	**$ (13,831)**	$ (13,573)	**$ (18,086)**	$ (20,106)

[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) and applicable regulations.

[3] Net assets available for pension benefits were $54,618 at December 31, 2017 and $51,087 at December 31, 2016 and include the preferred equity interest in AT&T Mobility II LLC discussed below, which was valued at $9,155 and $8,477, respectively.

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In 2013, we made a 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 was valued at $9,155 at December 31, 2017. 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 2017. 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. The preferred equity interest is not transferable by the trust except through its put and call features. In September 2017, AT&T notified the trust and the fiduciary of the preferred equity interest that AT&T committed that it would not exercise its call option of the preferred interest until at least September 9, 2022.

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, 2017.

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:

	2017	2016
Plan assets recognized in the consolidated financial statements	**$ 45,463**	$ 42,610
Preferred equity interest in Mobility	**9,155**	8,477
Net assets available for benefits	**$ 54,618**	$ 51,087

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

	Pension Benefits		Postretirement Benefits	
	2017	2016	**2017**	2016
Current portion of employee benefit obligation [1]	**$ -**	$ -	**$ (1,585)**	$ (1,644)
Employee benefit obligation [2]	**(13,831)**	(13,573)	**(16,501)**	(18,462)
Net amount recognized	**$ (13,831)**	$ (13,573)	**$ (18,086)**	$ (20,106)

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

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was $57,488 at December 31, 2017, and $54,538 at December 31, 2016.

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

Periodic Benefit Costs
Our combined net pension and postretirement cost (credit) recognized as operating expenses in our consolidated statements of income was $155, $303 and $(2,821) for the years ended December 31, 2017, 2016 and 2015. 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		
	2017	2016	2015	**2017**	2016	2015
Service cost – benefits earned during the period	**$ 1,128**	$ 1,112	$ 1,212	**$ 138**	$ 192	$ 222
Interest cost on projected benefit obligation	**1,936**	1,980	1,902	**809**	972	967
Expected return on assets	**(3,134)**	(3,115)	(3,317)	**(319)**	(355)	(421)
Amortization of prior service credit	**(123)**	(103)	(103)	**(1,466)**	(1,277)	(1,278)
Actuarial (gain) loss	**844**	1,478	(373)	**342**	(581)	(1,632)
Net pension and postretirement cost (credit)	**$ 651**	$ 1,352	$ (679)	**$ (496)**	$ (1,049)	$ (2,142)

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		
	2017	2016	2015	**2017**	2016	2015
Balance at beginning of year	**$ 575**	$ 512	$ 575	**$ 5,089**	$ 5,510	$ 6,257
Prior service (cost) credit	**(30)**	128	1	**1,120**	372	45
Amortization of prior service credit	**(76)**	(65)	(64)	**(907)**	(793)	(792)
Total recognized in other comprehensive (income) loss	**(106)**	63	(63)	**213**	(421)	(747)
Balance at end of year	**$ 469**	$ 575	$ 512	**$ 5,302**	$ 5,089	$ 5,510

The estimated prior service credits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year are $119 ($90 net of tax) for pension and $1,558 ($1,175 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		
	2017	2016	2015	**2017**	2016	2015
Weighted-average discount rate for determining benefit obligation at December 31	**3.80%**	4.40%	4.60%	**3.70%**	4.30%	4.50%
Discount rate in effect for determining service cost [1]	**4.60%**	4.90%	4.60%	**4.60%**	5.00%	4.60%
Discount rate in effect for determining interest cost [1]	**3.60%**	3.70%	3.30%	**3.40%**	3.60%	3.30%
Long-term rate of return on plan assets	**7.75%**	7.75%	7.75%	**5.75%**	5.75%	5.75%
Composite rate of compensation increase for determining benefit obligation	**3.00%**	3.00%	3.10%	**3.00%**	3.00%	3.10%
Composite rate of compensation increase for determining net cost (benefit)	**3.00%**	3.10%	3.00%	**3.00%**	3.10%	3.00%

[1] Weighted-average discount rate in effect from January 1, 2017 through April 30, 2017 was 4.70% for service costs and 3.50% for interest costs, and, from May 1, 2017 through December 31, 2017 was 4.50% for service cost and 3.30% for interest cost.

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. During the second quarter of 2017, a substantive plan change involving the frequency of considering potential health reimbursement account credit increases was communicated to our retirees, which triggered a remeasurement of our postretirement benefit obligation.

Discount Rate Our assumed weighted-average discount rate for pension and postretirement benefits of 3.80% and 3.70% respectively, at December 31, 2017, 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, 2017, when compared to the year ended December 31, 2016, we decreased our pension discount rate by 0.60%, resulting in an increase in our pension plan benefit obligation of $4,609 and decreased our postretirement discount rate 0.60%, resulting in an increase in our postretirement benefit obligation of $1,605. For the year ended December 31, 2016, 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 rates by 0.20%, resulting in an increase in our postretirement benefit obligation of $906.

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.

Dollars in millions except per share amounts

Expected Long-Term Rate of Return In 2018, our expected long-term rate of return is 7.00% on pension plan assets and 5.75% on postretirement plan assets. Our expected long-term rate of return on pension plan assets was adjusted to 7.00% for 2018 from 7.75% for 2017 to reflect future plans to shift portfolio allocations to increase the share of fixed income investments and updated capital market assumptions. 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' investment 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 2018 combined pension and postretirement cost to increase $244. 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 2017 and 2016 reflects the long-term average rate of salary increases.

Mortality Tables At December 31, 2017, we updated our assumed mortality rates to reflect our best estimate of future mortality, which decreased our pension obligation by $355 and our postretirement obligations by $95. At December 31, 2016, we updated our assumed mortality rates, which decreased our pension obligation by $793 and our postretirement obligations by $227.

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 2018 assumed annual healthcare prescription drug cost trend for non-Medicare eligible participants will decrease to our ultimate trend rate of 4.50%, in 2018 and for prescription drug cost for Medicare-eligible participants and medical cost for eligible participants will remain at an assumed annual and ultimate trend rate of 4.50%. This change in assumption decreased our obligation by $39. In 2017, our assumed annual healthcare prescription drug cost trend rate for non-Medicare eligible participants was 6.50%, trending to our ultimate trend rate of 4.50% in 2025. 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 2017, 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	$ 34	$ (30)
Increase (decrease) in accumulated postretirement benefit obligation	401	(360)

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 2018. We do not have significant ERISA required contributions to our pension plans for 2018.

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. In 2017, we made a voluntary contribution of $500 to one of our VEBA trusts.

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			**2017**	2016	Target			**2017**	2016
Equity securities:										
Domestic	20%	-	30%	**23%**	24%	13%	-	23%	**18%**	22%
International	10%	-	20%	**16**	15	10%	-	20%	**15**	19
Fixed income securities	35%	-	45%	**41**	39	35%	-	45%	**40**	38
Real assets	6%	-	16%	**10**	11	0%	-	6%	**1**	1
Private equity	4%	-	14%	**10**	11	0%	-	7%	**2**	2
Other	0%	-	5%	**-**	-	20%	-	30%	**24**	18
Total				**100%**	100%				**100%**	100%

At December 31, 2017, AT&T securities represented less than 0.5% of assets held by our pension trust and 4% 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.

Dollars in millions except per share amounts

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2017:

Pension Assets and Liabilities at Fair Value as of December 31, 2017				
	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 96	$ -	$ -	$ 96
Interest bearing cash	7	20	-	27
Foreign currency contracts	-	2	-	2
Equity securities:				
Domestic equities	9,441	-	4	9,445
International equities	4,967	1	-	4,968
Fixed income securities:				
Asset-backed securities	-	479	-	479
Mortgage-backed securities	-	765	-	765
Commercial mortgage-backed securities	-	170	-	170
Collateralized mortgage obligations/REMICS	-	284	-	284
Corporate and other fixed income instruments and funds	48	9,720	2	9,770
Government and municipal bonds	-	5,618	-	5,618
Real estate and real assets	-	-	2,287	2,287
Securities lending collateral	8	2,240	-	2,248
Receivable for variation margin	6	-	-	6
Assets at fair value	14,573	19,299	2,293	36,165
Investments sold short and other liabilities at fair value	(497)	(4)	-	(501)
Total plan net assets at fair value	$ 14,076	$ 19,295	$ 2,293	$ 35,664
Assets held at net asset value practical expedient				
Private equity funds				4,493
Real estate funds				2,340
Commingled funds				5,142
Total assets held at net asset value practical expedient				11,975
Other assets (liabilities) [1]				(2,176)
Total Plan Net Assets				**$ 45,463**

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

Notes to Consolidated Financial Statements (continued)
Dollars in millions except per share amounts

Postretirement Assets and Liabilities at Fair Value as of December 31, 2017	Level 1	Level 2	Level 3	Total
Interest bearing cash	$ 603	$ 725	$ -	$ 1,328
Foreign currencies	8	-	-	8
Equity securities:				
Domestic equities	857	9	-	866
International equities	600	-	-	600
Fixed income securities:				
Asset-backed securities	-	39	2	41
Commercial mortgage-backed securities	-	53	2	55
Mortgage-backed securities	-	271	-	271
Collateralized mortgage obligations	-	91	1	92
Corporate and other fixed income instruments and funds	-	456	-	456
Government and municipal bonds	-	439	-	439
Securities lending collateral	-	120	-	120
Total plan net assets at fair value	$ 2,068	$ 2,203	$ 5	$ 4,276
Assets held at net asset value practical expedient				
Private equity funds				102
Real estate funds				41
Commingled funds				1,750
Total assets held at net asset value practical expedient				1,893
Other assets (liabilities) [1]				(196)
Total Plan Net Assets				**$ 5,973**

[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, 2017:

Pension Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ 1	$ 40	$ 2,273	$ 2,314
Realized gains (losses)	1	-	(73)	(72)
Unrealized gains (losses)	(2)	1	216	215
Transfers in	-	-	25	25
Transfers out	-	(32)	-	(32)
Purchases	5	-	157	162
Sales	(1)	(7)	(311)	(319)
Balance at end of year	**$ 4**	**$ 2**	**$ 2,287**	**$ 2,293**

Postretirement Assets	Fixed Income Funds	Total
Balance at beginning of year	$ 26	$ 26
Transfers out	(15)	(15)
Purchases	2	2
Sales	(8)	(8)
Balance at end of year	**$ 5**	**$ 5**

Notes to Consolidated Financial Statements (continued)
Dollars in millions except per share amounts

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

Dollars in millions except per share amounts

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	1,240	9	-	1,249
International equities	834	-	-	834
Fixed income securities:				
Asset-backed securities	-	33	4	37
Commercial mortgage-backed securities	-	108	13	121
Mortgage-backed securities	-	193	-	193
Collateralized mortgage obligations	-	32	2	34
Corporate and other fixed income instruments and funds	-	422	7	429
Government and municipal bonds	20	466	-	486
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.

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

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, 2017. 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
2018	$ 4,633	$ 1,751
2019	4,191	1,719
2020	4,180	1,707
2021	4,149	1,692
2022	4,063	1,670
Years 2023 - 2027	19,653	7,267

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 3.70% at December 31, 2017 and 4.20% at December 31, 2016 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:

	2017	2016
Projected benefit obligation	**$ (2,344)**	$ (2,378)
Accumulated benefit obligation	**(2,285)**	(2,314)
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	**2017**	2016	2015
Service cost – benefits earned during the period	**$ 13**	$ 12	$ 9
Interest cost on projected benefit obligation	**77**	83	77
Amortization of prior service cost (credit)	**(1)**	(1)	1
Actuarial (gain) loss	**126**	72	(36)
Net supplemental retirement pension cost	**$ 215**	$ 166	$ 51

Other Changes Recognized in Other Comprehensive Income	**2017**	2016	2015
Prior service (cost) credit	**$ 1**	$ 1	$ (1)
Amortization of prior service cost (credit)	**(1)**	(1)	1
Total recognized in other comprehensive (income) loss (net of tax)	**$ -**	$ -	$ -

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 $138 in 2017, $148 in 2016 and $122 in 2015. Our deferred compensation liability, included in "Other noncurrent liabilities," was $1,310 at December 31, 2017, and $1,273 at December 31, 2016.

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 $703, $631 and $653 for the years ended December 31, 2017, 2016 and 2015.

NOTE 13. SHARE-BASED PAYMENTS

Under our various plans, senior and other management employees and nonemployee directors have received nonvested stock and stock units. We grant performance stock units, which are nonvested stock units, based upon our stock price at the date of grant and award them in the form of AT&T common stock and cash at the end of a three-year period, subject to the achievement of certain performance goals. We treat the cash 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, 2017, we were authorized to issue up to approximately 119 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:

	2017	2016	2015
Performance stock units	**$ 395**	$ 480	$ 299
Restricted stock and stock units	**90**	152	147
Other nonvested stock units	**(5)**	21	5
Total	**$ 480**	$ 653	$ 451
Income tax benefit	**$ 184**	$ 250	$ 172

A summary of the status of our nonvested stock units as of December 31, 2017, 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, 2017	31	$ 35.57
Granted	13	41.17
Vested	(14)	34.70
Forfeited	(1)	37.48
Nonvested at December 31, 2017	**29**	**$ 38.35**

As of December 31, 2017, there was $572 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 2.16 years. The total fair value of shares vested during the year was $473 for 2017, compared to $614 for 2016 and $450 for 2015.

It is our intent to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was $33 for 2017, $179 for 2016 and $46 for 2015.

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. Our Board of Directors approved authorizations in both March 2013 and 2014 that allow us to repurchase 300 million shares of our common stock under each program. For the year ended December 31, 2017, we had repurchased approximately 7 million shares for distribution through our employee benefit plans totaling $279 under the authorizations. At December 31, 2017, we had approximately 388 million shares remaining from these authorizations. For the year ended December 31, 2016, we had repurchased approximately 11 million shares totaling $444 under the 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.

Dividend Declarations In December 2017, the Company declared an increase in its quarterly dividend to $0.50 per share of common stock. In October 2016, the Company declared an increase in its quarterly dividend to $0.49 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. As originally written, 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). In September 2017, AT&T notified the trust and the fiduciary of the preferred equity interest that AT&T committed that it would not exercise its call option of the preferred interest until at least September 9, 2022.

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 ending in September 2020. 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 specified period of time and, in many cases, once certain conditions are met, they may be eligible to trade in the original equipment for a new device and have the remaining unpaid balance paid or settled. As of December 31, 2017 and December 31, 2016, gross equipment installment receivables of $6,079 and $5,665 were included on our consolidated balance sheets, of which $3,340 and $3,425 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 transfer certain receivables to the Purchasers for cash and additional consideration upon settlement of the receivables, referred to as the deferred purchase price. Since 2014, we have made beneficial modifications to the agreement. During 2017, we modified the agreement and entered into a second uncommitted agreement with the Purchasers such that we receive more upfront cash consideration at the time the receivables are transferred to the Purchasers. Additionally, in the event a customer trades in a device prior to the end of the installment contract period, we agree to make a payment to the Purchasers equal to any outstanding remaining installment receivable balance. Accordingly, we record a guarantee obligation to the Purchasers for this estimated amount at the time the receivables are transferred. 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 $4,337.

Dollars in millions except per share amounts

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

	2017	2016	2015
Gross receivables sold	**$ 8,058**	$ 7,629	$ 7,436
Net receivables sold [1]	**7,388**	6,913	6,704
Cash proceeds received	**5,623**	4,574	4,439
Deferred purchase price recorded	**2,077**	2,368	2,266
Guarantee obligation recorded	**215**	-	-

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

The deferred purchase price and guarantee obligation are initially recorded at estimated fair value and subsequently carried at the lower of cost or net realizable value. The estimation of their fair values is based on remaining installment payments expected to be collected and the expected timing and value of device trade-ins. 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 for the deferred purchase price and the guarantee obligation 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, which we repurchased in exchange for the associated deferred purchase price:

	2017	2016	2015
Fair value of repurchased receivables	**$ 1,699**	$ 1,675	$ 685
Carrying value of deferred purchase price	**1,524**	1,638	534
Gain on repurchases [1]	**$ 175**	$ 37	$ 151

1 These gains are included in "Selling, general and administrative" in the consolidated statements of income.

At December 31, 2017 and December 31, 2016, our deferred purchase price receivable was $2,749 and $3,090, respectively, of which $1,781 and $1,606 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 total amount of our deferred purchase price and guarantee obligation.

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. See Note 1 for discussion of the change in classification of cash receipts on the deferred purchase price from operating activities to investing activities, effective January 1, 2018.

The outstanding portfolio of installment receivables derecognized from our condensed consolidated balance sheets, but which we continue to service, was $7,446 at December 31, 2017.

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, 2017 and 2016, the tower assets had a balance of $882 and $921, respectively. Our depreciation expense for these assets was $39 for each of 2017, 2016 and 2015.

Payments made to Crown Castle under this arrangement were $234 for 2017. At December 31, 2017, the future minimum payments under the sublease arrangement are $239 for 2018, $244 for 2019, $248 for 2020, $253 for 2021, $258 for 2022, and $1,794 thereafter.

NOTE 17. FIRSTNET

In March 2017, the First Responder Network Authority (FirstNet) announced its selection of AT&T to build and manage the first nationwide broadband network dedicated to America's first responders. By January 2018, all 56 jurisdictions, including 50 states, the District of Columbia and five U.S. territories, have elected to participate in the network. Under the awarded 25-year agreement, FirstNet will provide 20 MHz of valuable telecommunications spectrum and success-based payments of $6,500 over the next five years to support network buildout. We expect to spend about $40,000, in part recoverable from FirstNet, over the life of the 25-year contract to build, operate and maintain the network. The spectrum provides priority use to first responders, which are included as wireless subscribers and contribute to wireless revenues. As allowed under the agreement, excess capacity on the spectrum is used for any of AT&T's subscriber base.

Under the agreement, we are required to construct a network that achieves coverage and nationwide interoperability requirements. We have a contractual commitment to make sustainability payments of $18,000 over the 25-year contract. These sustainability payments represent our commitment to fund FirstNet's operating expenses and future reinvestments in the network which we will own and operate. FirstNet has a statutory requirement to reinvest funds that exceed the agency's operating expenses, which are anticipated to be in the $75-$100 range annually, and when including increases for inflation, we expect to be in the $3,000 or less range over the life of the 25-year contract. Being subject to federal acquisition rules, FirstNet is prohibited from contractually committing to a specific vendor for future network reinvestment. However, it is highly probable that AT&T will receive substantially all of the funds reinvested into the network since AT&T will own and operate the infrastructure and have exclusive rights to use the spectrum as all states have opted in. After FirstNet's operating expenses are paid, we anticipate that the remaining amount, expected to be in the $15,000 range, will be reinvested into the network.

At December 31, 2017, the future sustainability payments under the agreement are $240 for 2018, $120 for 2019, 2020, and 2021, $195 for 2022 and $17,205 thereafter. Amounts paid to FirstNet which are not returned to AT&T to be reinvested into our network will be expensed in the period paid. In the event FirstNet does not reinvest any funds to construct, operate, improve and maintain this network, our maximum exposure to loss is the total amount of the sustainability payments, which would be reflected in higher expense.

The $6,500 of initial funding from FirstNet is contingent on the achievement of six operating capability milestones and certain first responder subscriber adoption targets. These milestones are based on coverage objectives of the first responder network during the construction period, which is expected to be over five years, and subscriber adoption targets. Funding payments to be received from FirstNet are reflected as a reduction from the costs capitalized in the construction of the network, and, as appropriate, a reduction of associated operating expenses.

As of December 31, 2017, we have completed certain task orders related to the construction of the network and have collected $328 to date. We have reflected these amounts as a reduction to the costs incurred to complete the task orders. We anticipate collecting the remainder of the $6,500 from FirstNet as we achieve milestones set out by FirstNet over the next five years.

Dollars in millions except per share amounts

NOTE 18. CONTINGENT LIABILITIES

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

We have contractual obligations to purchase certain goods or services from various other parties. Our purchase obligations are expected to be approximately $10,074 in 2018, $12,331 in total for 2019 and 2020, $7,003 in total for 2021 and 2022 and $5,831 in total for years thereafter.

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

NOTE 19. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Consolidated Balance Sheets	**2017**	2016
Current customer fulfillment costs (included in Other current assets)	**$ 3,877**	$ 3,398
Accounts payable and accrued liabilities:		
Accounts payable	**$ 24,439**	$ 22,027
Accrued payroll and commissions	**2,284**	2,450
Current portion of employee benefit obligation	**1,585**	1,644
Accrued interest	**2,661**	2,023
Other	**3,501**	2,994
Total accounts payable and accrued liabilities	**$ 34,470**	$ 31,138

Consolidated Statements of Income	**2017**	2016	2015
Advertising expense	**$ 3,772**	$ 3,768	$ 3,632
Interest expense incurred	**$ 7,203**	$ 5,802	$ 4,917
Capitalized interest	**(903)**	(892)	(797)
Total interest expense	**$ 6,300**	$ 4,910	$ 4,120

Consolidated Statements of Cash Flows	**2017**	2016	2015
Cash paid during the year for:			
Interest	**$ 6,622**	$ 5,696	$ 4,822
Income taxes, net of refunds	**2,006**	3,721	1,851

No customer accounted for more than 10% of consolidated revenues in 2017 , 2016 or 2015 .

Labor Contracts As of January 31, 2018, we employed approximately 252,000 persons. Approximately 46% of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers (IBEW) or other unions. Contracts covering approximately 23,000 will expire during 2018, including approximately 10,000 traditional wireline employees in our five-state Midwest region and approximately 10,000 mobility employees in our nine-state Southeast region. After expiration of the current agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached.

Dollars in millions except per share amounts

NOTE 20. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables represent our quarterly financial results:

	2017 Calendar Quarter				
	First	**Second** [1]	**Third**	**Fourth** [1,2]	**Annual**
Total Operating Revenues	$ 39,365	$ 39,837	$ 39,668	$ 41,676	$ 160,546
Operating Income	6,864	7,323	6,403	359	20,949
Net Income	3,574	4,014	3,123	19,136	29,847
Net Income Attributable to AT&T	3,469	3,915	3,029	19,037	29,450
Basic Earnings Per Share Attributable to AT&T [3]	$ 0.56	$ 0.63	$ 0.49	$ 3.08	$ 4.77
Diluted Earnings Per Share Attributable to AT&T [3]	$ 0.56	$ 0.63	$ 0.49	$ 3.08	$ 4.76
Stock Price					
High	$ 43.02	$ 41.69	$ 39.41	$ 39.51	
Low	40.61	37.46	35.59	32.86	
Close	41.55	37.73	39.17	38.88	

1 Includes actuarial gains and losses on pension and postretirement benefit plans (Note 12).
2 Includes an asset abandonment charge (Note 6) and the impact of federal corporate income tax reform (Note 11).
3 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.

	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) and asset impairment charges (Note 6) and changes in accounting estimates for network asset lives and salvage values, and customer fulfillment costs.
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, 2017. 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, 2017, 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.

/s/ Randall Stephenson	/s/ John J. Stephens
Randall Stephenson	John J. Stephens
Chairman of the Board,	Senior Executive Vice President and
Chief Executive Officer and	Chief Financial Officer
President	

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of AT&T Inc.

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of AT&T Inc. (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1999.

Dallas, Texas
February 20, 2018

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of AT&T Inc.

Opinion on Internal Control over Financial Reporting

We have audited AT&T Inc.'s internal control over financial reporting as of December 31, 2017, 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). In our opinion, AT&T Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 consolidated financial statements of the Company and our report dated February 20, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP

Dallas, Texas
February 20, 2018

Exhibit 21

PRINCIPAL SUBSIDIARIES OF

AT&T INC., AS OF DECEMBER 31, 2017

2017 AT&T INC. REPORT TO STOCKHOLDERS

SECURITIES AND EXCHANGE COMMISSION ("SEC")

FORM 10-K filed February 20, 2018

Legal Name	State of Incorporation/Formation	Conducts Business Under
Illinois Bell Telephone Company	Illinois	AT&T Illinois; AT&T Wholesale
Indiana Bell Telephone Company, Incorporated	Indiana	AT&T Indiana; AT&T Wholesale
Michigan Bell Telephone Company	Michigan	AT&T Michigan; AT&T Wholesale
Nevada Bell Telephone Company	Nevada	AT&T Nevada; AT&T Wholesale
Pacific Bell Telephone Company	California	AT&T California; AT&T Wholesale; AT&T DataComm
SBC Long Distance, LLC	Delaware	AT&T Long Distance
AT&T Teleholdings, Inc.	Delaware	AT&T Midwest; AT&T West; AT&T East
Southwestern Bell Telephone Company	Delaware	AT&T Arkansas; AT&T Kansas; AT&T Missouri; AT&T Oklahoma; AT&T Texas; AT&T Southwest; AT&T DataComm; AT&T Wholesale
The Ohio Bell Telephone Company	Ohio	AT&T Ohio; AT&T Wholesale
Wisconsin Bell, Inc.	Wisconsin	AT&T Wisconsin; AT&T Wholesale
AT&T Corp.	New York	AT&T Corp.; ACC Business; AT&T Wholesale; AT&T Business Solutions; AT&T Advanced Solutions; AT&T Diversified Group; AT&T Mobile and Business Solutions
Teleport Communications America, LLC	Delaware	same
BellSouth, LLC	Georgia	AT&T South
BellSouth Telecommunications, LLC	Georgia	AT&T Alabama AT&T Florida AT&T Georgia AT&T Kentucky AT&T Louisiana AT&T Mississippi AT&T North Carolina AT&T South Carolina AT&T Tennessee AT&T Southeast
AT&T Mobility LLC	Delaware	same

AT&T Mobility II LLC	Delaware	same
New Cingular Wireless PCS, LLC	Delaware	AT&T Mobility
Cricket Wireless LLC	Delaware	same
AT&T Communications, LLC	Delaware	same
AT&T International, LLC	Delaware	same
AT&T Comunicaciones Digitales, S. de R.L. de C.V.	Mexico City	same
DIRECTV, LLC	California	same
DIRECTV Enterprises, LLC	Delaware	same
DIRECTV Latin America, LLC	Delaware	same
Sky Serviços de Banda Larga Ltda.	Brazil	same
DIRECTV Colombia Ltda.	Colombia	same
DIRECTV Argentina S.A.	Argentina	same

Consent of Independent Registered Public Accounting Firm and Report on Schedule

Consent

We consent to the incorporation by reference in the following Registration Statements :

(1) Registration Statement (Form S-8 No. 333-34062) pertaining to the Stock Savings Plan,
(2) Registration Statement (Form S-3 No. 333-209718) of AT&T and the related Prospectuses,
Registration Statement (Form S-8 No. 333-135517) pertaining to the AT&T 2006 Incentive Plan,
(3) Registration Statement (Form S-8 No. 333-141864) pertaining to the AT&T Savings Plan and certain other plans,
(4) Registration Statement (Form S-8 No. 333-139749) pertaining to the BellSouth Retirement Savings Plan and certain other BellSouth plans,
(5) Registration Statement (Form S-8 No. 333-152822) pertaining to the AT&T Non-Employee Director Stock Purchase Plan,
(6) Registration Statement (Form S-8 No. 333-173079) pertaining to the AT&T 2011 Incentive Plan,
(7) Registration Statement (Form S-8 No. 333-188384) pertaining to the AT&T Stock Purchase and Deferral Plan and Cash Deferral Plan,
(8) Registration Statement (Form S-8 No. 333-189789) pertaining to the AT&T Savings and Security Plan, the AT&T Puerto Rico Retirement Savings Plan, the AT&T Retirement Savings Plan, and the BellSouth Savings and Security Plan,
(9) Registration Statement (Form S-8 No 333-205868) pertaining to the DIRECTV 2010 Stock Plan, the DIRECTV 401(k) Savings Plan, and the Liberty Entertainment, Inc. Transitional Stock Adjustment Plan, and
(10) Registration Statement (Form S-8 No. 333-211303) pertaining to the 2016 Incentive Plan;

of our reports dated February 20, 2018, with respect to the consolidated financial statements of AT&T Inc. and the effectiveness of internal control over financial reporting of AT&T incorporated by reference in this Annual Report (Form 10-K) of AT&T Inc. for the year ended December 31, 2017.

Report on Schedule

To the Stockholders and the Board of Directors of AT&T Inc.

We have audited the consolidated financial statements of AT&T Inc. (the Company) as of December 31, 2017 and 2016, and for each of the three years in the period ended December 31, 2017, and have issued our report thereon dated February 20, 2018 incorporated by reference in this Annual Report (Form 10-K) of AT&T Inc. from the 2017 Annual Report to Stockholders of AT&T Inc. Our audits of the consolidated financial statements included the financial statement schedule listed in Item 15(a) of this Annual Report (Form 10-K) (the "schedule"). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's schedule based on our audits.

In our opinion, the schedule presents fairly, in all material respects, the information set forth therein when considered in conjunction with the consolidated financial statements.

/s/ Ernst & Young LLP

Dallas, Texas
February 20, 2018

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, AT&T INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission at Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints George B. Goeke, David R. McAtee II, John J. Stephens, Debra L. Dial, or any one of them, all of the City of Dallas and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

January 26, 2018	/s/ Randall L. Stephenson
Date	Randall L. Stephenson Chairman of the Board, Chief Executive Officer and President

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, AT&T INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission at Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints Randall L. Stephenson, George B. Goeke, David R. McAtee II, John J. Stephens, Debra L. Dial, or any one of them, all of the City of Dallas and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

February 2, 2018	/s/ Samuel A. Di Piazza, Jr.
Date	Samuel A. Di Piazza, Jr.
	Director

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, AT&T INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission at Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints Randall L. Stephenson, George B. Goeke, David R. McAtee II, John J. Stephens, Debra L. Dial, or any one of them, all of the City of Dallas and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

February 2, 2018	/s/ Richard W. Fisher
Date	Richard W. Fisher
	Director

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS:

THAT, AT&T INC., a Delaware corporation, hereinafter referred to as the "Corporation," proposes to file with the Securities and Exchange Commission at Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, an annual report on Form 10-K; and

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints Randall L. Stephenson, George B. Goeke, David R. McAtee II, John J. Stephens, Debra L. Dial, or any one of them, all of the City of Dallas and State of Texas, the attorneys for the undersigned and in the undersigned's name, place and stead, and in the undersigned's office and capacity in the Corporation, to execute and file such annual report, and thereafter to execute and file any amendment or amendments thereto, hereby giving and granting to said attorneys full power and authority to do and perform each and every act and thing whatsoever requisite and necessary to be done in and concerning the premises, as fully to all intents and purposes as the undersigned might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorneys may or shall lawfully do, or cause to be done, by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

February 2, 2018	/s/ Scott T. Ford
Date	Scott T. Ford
	Director

Exhibit 24

POWER OF ATTORNEY

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February 2, 2018	/s/ Glenn H. Hutchins
Date	Glenn H. Hutchins
	Director

Exhibit 24

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February 2, 2018	/s/ William E. Kennard
Date	William E. Kennard
	Director

Exhibit 24

POWER OF ATTORNEY

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February 2, 2018	/s/ Michael B. McCallister
Date	Michael B. McCallister
	Director

Exhibit 24

POWER OF ATTORNEY

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February 2, 2018	/s/ Beth E. Mooney
Date	Beth E. Mooney
	Director

Exhibit 24

POWER OF ATTORNEY

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February 2, 2018	/s/ Joyce M. Roché
Date	Joyce M. Roché
	Director

Exhibit 24

POWER OF ATTORNEY

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

February 2, 2018	/s/ Matthew K. Rose
Date	Matthew K. Rose
	Director

Exhibit 24

POWER OF ATTORNEY

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

February 2, 2018	/s/ Cynthia B. Taylor
Date	Cynthia B. Taylor
	Director

Exhibit 24

POWER OF ATTORNEY

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

February 2, 2018	/s/ Laura D'Andrea Tyson
Date	Laura D'Andrea Tyson
	Director

Exhibit 24

POWER OF ATTORNEY

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IN WITNESS WHEREOF, each of the undersigned has hereunto set his or her hand the date set forth opposite their name.

February 2, 2018	/s/ Geoffrey Y. Yang
Date	Geoffrey Y. Yang
	Director

CERTIFICATION

I, Randall Stephenson, certify that:

1. I have reviewed this report on Form 10-K of AT&T Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2018

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

CERTIFICATION

I, John J. Stephens, certify that:

1. I have reviewed this report on Form 10-K of AT&T Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2018

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

Certification of Periodic Financial Reports

Pursuant to 18 U.S.C. Section 1350, each of the undersigned officers of AT&T Inc. (the "Company") hereby certifies that the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 20, 2018

By: /s/ Randall Stephenson
Randall Stephenson
Chairman of the Board, Chief Executive Officer
and President

February 20, 2018

By: /s/ John J. Stephens
John J. Stephens
Senior Executive Vice President
and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document. This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act") or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to AT&T Inc. and will be retained by AT&T Inc. and furnished to the Securities and Exchange Commission or its staff upon request.