AT&T INC. FINANCIAL REVIEW 2021

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OVERVIEW

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 worldwide in the telecommunications, media and technology industries. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes (Notes).

Our Management's Discussion and Analysis of Financial Condition and Results of Operations included in this document generally discusses 2021 and 2020 items and year-to-year comparisons between 2021 and 2020. Discussions of 2019 items and year-to-year comparisons between 2020 and 2019 that are not included in this document can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in exhibit 99.1, revised Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed on Form 8-K on June 21, 2021.

On July 31, 2021, we closed our transaction with TPG Capital (TPG) to form a new company named DIRECTV Entertainment Holdings, LLC (DIRECTV). With the close of the transaction, we separated our Video business, comprised of our U.S. video operations, and began accounting for our investment in DIRECTV under the equity method. On November 15, 2021, we sold or Latin America video operations, Vrio, to Grupo Werthein. (See Note 6)

We have three reportable segments: (1) Communications, (2) WarnerMedia and (3) Latin America. Our segment results presented in Note 4 and discussed below follow our internal management reporting. We analyze our segments based on segment operating 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 contribution is derived from our segment results table in Note 4 and may total more than 100% due to losses in one or more segments. Percentage increases and decreases that are not considered meaningful are denoted with a dash.

				Percent Change	
	2021	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Operating Revenues					
Communications	**$ 114,730**	$ 109,965	$ 109,969	**4.3 %**	— %
WarnerMedia	**35,632**	30,442	35,259	**17.0**	(13.7)
Latin America	**5,354**	5,716	6,963	**(6.3)**	(17.9)
Corporate and Other:					
Corporate	**1,264**	2,207	2,131	**(42.7)**	3.6
Video	**15,513**	28,610	32,124	**(45.8)**	(10.9)
Eliminations and consolidation	**(3,629)**	(5,180)	(5,253)	**29.9**	1.4
AT&T Operating Revenues	**168,864**	171,760	181,193	**(1.7)**	(5.2)
Operating Contribution					
Communications	**28,279**	28,313	29,815	**(0.1)**	(5.0)
WarnerMedia	**7,277**	8,210	10,659	**(11.4)**	(23.0)
Latin America	**(430)**	(729)	(635)	**41.0**	(14.8)
Segment Operating Contribution	**$ 35,126**	$ 35,794	$ 39,839	**(1.9)**	(10.2)
Corporate and Other[1]	**(11,148)**	(29,294)	(11,878)	**61.9**	—
AT&T Operating Contribution	**$ 23,978**	$ 6,500	$ 27,961	**— %**	(76.8)%

[1] Includes the reclassification of prior service credit amortization and retained costs previously allocated to Video, the Video business separated in July 2021, acquisition-related and certain significant items, and eliminations and consolidations. See Note 4 for additional details and amounts included in Corporate and Other.

The ***Communications segment*** accounted for approximately 74% of our 2021 total segment operating revenues compared to 75% in 2020 and 81% of our 2021 total segment operating contribution as compared to 79% in 2020. This segment provides services to businesses and consumers located in the U.S. and businesses globally. Our business strategies reflect bundled product offerings that cut across product lines and utilize shared assets. This segment contains the following business units:

- **Mobility** provides nationwide wireless service and equipment.
- **Business Wireline** provides advanced IP-based services, as well as traditional voice and data services and related equipment to business customers.
- **Consumer Wireline** provides internet, including broadband fiber, and legacy telephony voice communication services to residential customers.

The ***WarnerMedia segment*** accounted for approximately 23% of our 2021 total segment operating revenues compared to 21% in 2020 and 21% of our 2021 total segment operating contribution compared to 23% in 2020. This segment develops, produces and distributes feature films, television, gaming and other content in various physical and digital formats globally. WarnerMedia content is distributed through basic networks, Direct-to-Consumer (DTC) or theatrical, TV content and games licensing. Segment results also include Xandr advertising and Otter Media Holdings (Otter Media). We disposed of substantially all of the Otter Media assets in the third quarter of 2021 (see Note 6).

The ***Latin America segment*** accounted for approximately 3% of our 2021 total segment operating revenues compared to 4% in 2020. This segment provides wireless services and equipment in Mexico, and prior to the November 2021 disposition of Vrio, video services in Latin America and the Caribbean (see Note 6).

RESULTS OF OPERATIONS

Consolidated Results Our financial results are summarized in the following table. We then discuss factors affecting our overall results. Additional analysis is discussed in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2022 in the "Operating Environment and Trends of the Business" section. Certain prior-period amounts have been reclassified to conform to the current period's presentation.

				Percent Change	
	2021	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Operating revenues					
Service	**$ 146,391**	$ 152,767	$ 163,499	**(4.2)%**	(6.6)%
Equipment	**22,473**	18,993	17,694	**18.3**	7.3
Total Operating Revenues	**168,864**	171,760	181,193	**(1.7)**	(5.2)
Operating expenses					
Operations and support	**117,751**	117,959	123,563	**(0.2)**	(4.5)
Asset impairments and abandonments	**4,904**	18,880	1,458	**(74.0)**	—
Depreciation and amortization	**22,862**	28,516	28,217	**(19.8)**	1.1
Total Operating Expenses	**145,517**	165,355	153,238	**(12.0)**	7.9
Operating Income	**23,347**	6,405	27,955	**—**	(77.1)
Interest expense	**6,884**	7,925	8,422	**(13.1)**	(5.9)
Equity in net income of affiliates	**631**	95	6	**—**	—
Other income (expense) – net	**9,853**	(1,431)	(1,071)	**—**	(33.6)
Income (Loss) Before Income Taxes	**26,947**	(2,856)	18,468	**—**	—
Net Income (Loss)	**21,479**	(3,821)	14,975	**—**	—
Net Income (Loss) Attributable to AT&T	**20,081**	(5,176)	13,903	**—**	—
Net Income (Loss) Attributable to Common Stock	**$ 19,874**	$ (5,369)	$ 13,900	**— %**	— %

OVERVIEW

Operating revenues decreased in 2021, with declines reflecting our July 31, 2021 separation of the U.S. video business, the completion of the sale of our Vrio business unit in November 2021 and the October 2020 sale of wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands. Also contributing to revenue declines was lower Business Wireline revenues due in part to higher demand for pandemic-related connectivity in the prior year. Partially offsetting declines were higher Mobility equipment and service revenues and gains in broadband service in our Communications segment; higher content and DTC subscription revenues in our WarnerMedia segment; and growth in Mexico wireless operations including favorable foreign exchange impacts.

Operations and support expenses decreased in 2021, with declines reflecting our business divestitures, lower bad debt expense and lower personnel costs associated with our ongoing transformation initiatives. Declines were mostly offset by increased domestic wireless equipment expense from higher volumes, and higher WarnerMedia programming costs and marketing activities.

Asset impairments and abandonments decreased in 2021, with higher impairments in 2020. Noncash impairment charges in 2020 included $15,508, resulting from our assessment of the recoverability of the long-lived assets and goodwill associated with our U.S. video business (see Notes 7 and 9); $2,212 goodwill impairment at our Vrio business unit (see Note 9); and $780 from the impairment of production and other content inventory at WarnerMedia, with approximately $524 resulting from the continued shutdown of theaters during the pandemic and the hybrid distribution model for our 2021 film slate (see Note 11). In 2021, we took an additional Vrio impairment of $4,555, resulting from our assessment of the recoverability of the net assets of Vrio (see Note 6).

Depreciation and amortization expense decreased in 2021.

Amortization expense decreased $3,779, or 47.2%, in 2021 primarily due to ceasing amortization on Video and Vrio held-for-sale assets.

Depreciation expense decreased $1,875, or 9.1%, in 2021 primarily due to the lower cost basis of property, plant and equipment resulting from Video impairments taken in the fourth quarter of 2020 and ceasing depreciation on Video and Vrio held-for-sale assets in 2021.

Operating income increased in 2021 and decreased in 2020. Our operating margin was 13.8% in 2021, compared to 3.7% in 2020 and 15.4% in 2019.

Interest expense decreased in 2021, primarily due to lower interest rates and capitalized interest associated with the spectrum acquisitions, partially offset by higher debt balances.

Equity in net income (loss) of affiliates increased in 2021, primarily due to the close of our transaction with TPG related to the U.S. video business, which resulted in our accounting for our investment in DIRECTV under the equity method of accounting beginning August 1, 2021 (see Notes 6 and 20).

Other income (expense) – net increased in 2021, primarily due to the recognition of $4,140 in actuarial gains, compared to losses of $4,169 in 2020, and recognition of $1,405 of debt redemption costs in 2020. Also contributing to increased income were higher net pension and postretirement benefit credits from higher prior service credit amortization (see Note 15) and net gains on the sale of assets (see Note 6).

Income tax expense increased in 2021, primarily driven by increased income before income taxes, offset primarily by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) benefit of U.S. federal Net Operating Loss (NOL) carryback and benefits on divestitures in 2021.

Our effective tax rate was 20.3% in 2021, (33.8)% in 2020, and 18.9% in 2019. The effective tax rate in 2020 was impacted by our impairment of Vrio and Video goodwill, which was not deductible for tax purposes.

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 below follow our internal management reporting. In addition to segment operating contribution, we also evaluate segment performance based on EBITDA and/or EBITDA margin. EBITDA is defined as segment operating 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 depreciation and amortization expenses incurred in operating contribution nor is it burdened by 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.

COMMUNICATIONS SEGMENT

				Percent Change	
	2021	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Segment Operating Revenues					
Mobility	**$ 78,254**	$ 72,564	$ 71,056	**7.8 %**	2.1 %
Business Wireline	**23,937**	25,083	25,901	**(4.6)**	(3.2)
Consumer Wireline	**12,539**	12,318	13,012	**1.8**	(5.3)
Total Segment Operating Revenues	**114,730**	109,965	109,969	**4.3**	—
Segment Operating Contribution					
Mobility	**23,312**	22,372	22,321	**4.2**	0.2
Business Wireline	**3,990**	4,564	5,137	**(12.6)**	(11.2)
Consumer Wireline	**977**	1,377	2,357	**(29.0)**	(41.6)
Total Segment Operating Contribution	**$ 28,279**	$ 28,313	$ 29,815	**(0.1)%**	(5.0)%

Selected Subscribers and Connections

	December 31,		
(000s)	**2021**	2020	2019
Mobility subscribers	**201,791**	182,558	165,889
Total domestic broadband connections	**15,504**	15,384	15,389
Network access lines in service	**6,177**	7,263	8,487
U-verse VoIP connections	**3,333**	3,816	4,370

Operating revenues increased in 2021, driven by increases in our Mobility and Consumer Wireline business units, partially offset by a decrease in our Business Wireline business unit. The increases are primarily driven by equipment and wireless service revenue growth and gains in broadband service.

Operating contribution decreased in 2021 and 2020. The 2021 operating contribution includes declines in our Business Wireline and Consumer Wireline business units, and reflects an increase in operating contribution from our Mobility business unit. Our Communications segment operating income margin was 24.6% in 2021, 25.7% in 2020 and 27.1% in 2019.

Communications Business Unit Discussion

Mobility Results

				Percent Change	
	2021	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Operating revenues					
Service	**$ 57,590**	$ 55,542	$ 55,331	**3.7 %**	0.4 %
Equipment	**20,664**	17,022	15,725	**21.4**	8.2
Total Operating Revenues	**78,254**	72,564	71,056	**7.8**	2.1
Operating expenses					
Operations and support	**46,820**	42,106	40,681	**11.2**	3.5
Depreciation and amortization	**8,122**	8,086	8,054	**0.4**	0.4
Total Operating Expenses	**54,942**	50,192	48,735	**9.5**	3.0
Operating Income	**23,312**	22,372	22,321	**4.2**	0.2
Equity in Net Income (Loss) of Affiliates	**—**	—	—	**—**	—
Operating Contribution	**$ 23,312**	$ 22,372	$ 22,321	**4.2 %**	0.2 %

The following tables highlight other key measures of performance for Mobility:

Subscribers

				Percent Change	
(in 000s)	**2021**	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Postpaid	**81,534**	77,154	75,207	**5.7 %**	2.6 %
Postpaid phone	**67,260**	64,216	63,018	**4.7**	1.9
Prepaid	**19,028**	18,102	17,803	**5.1**	1.7
Reseller	**6,113**	6,535	6,893	**(6.5)**	(5.2)
Connected devices[1]	**95,116**	80,767	65,986	**17.8**	22.4
Total Mobility Subscribers	**201,791**	182,558	165,889	**10.5 %**	10.0 %

[1] Includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems.

Mobility Net Additions

				Percent Change	
(in 000s)	**2021**	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Postpaid Phone Net Additions	**3,196**	1,457	483	**— %**	— %
Total Phone Net Additions	**3,850**	1,640	989	**—**	65.8
Postpaid[2]	**4,482**	2,183	(435)	**—**	—
Prepaid	**956**	379	677	**—**	(44.0)
Reseller	**(534)**	(449)	(928)	**(18.9)**	51.6
Connected devices[3]	**14,328**	14,785	14,645	**(3.1)**	1.0
Mobility Net Subscriber Additions[1]	**19,232**	16,898	13,959	**13.8 %**	21.1 %
Postpaid Churn[4]	**0.94 %**	0.98 %	1.18 %	**(4) BP**	(20) BP
Postpaid Phone-Only Churn[4]	**0.76 %**	0.79 %	0.95 %	**(3) BP**	(16) BP

[1] Excludes acquisition-related additions during the period.
[2] In addition to postpaid phones, includes tablets and wearables and other. Tablet net (losses) were 28, (512) and (1,487) for the years ended December 31, 2021, 2020 and 2019, respectively. Wearables and other net adds were 1,257, 1,223 and 569 for the years ended December 31, 2021, 2020 and 2019, respectively.
[3] Includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems. Excludes postpaid tablets and other postpaid data devices. Wholesale connected car net adds were 7.9 million for the year ended December 31, 2021.
[4] Calculated by dividing the aggregate number of wireless subscribers who canceled service during a month 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.

Service revenue increased during 2021, largely due to growth from subscriber gains.

ARPU
Average revenue per subscriber (ARPU) decreased in 2021 and reflects the impact of higher promotional discount amortization (see Note 5).

Churn
The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. Postpaid churn and postpaid phone-only churn were lower in 2021 due to retention offers, migrations to unlimited plans, continued network performance and lower involuntary disconnects.

Equipment revenue increased in 2021 primarily driven by increased volumes, the sale of higher-priced smartphones and a mix of higher-priced postpaid smartphones.

Operations and support expenses increased in 2021, largely driven by growth in equipment sales and associated expenses, including costs associated with the upcoming first-quarter 2022 3G network shutdown, increased content costs associated with bundling HBO Max, increased amortization of deferred contract acquisition costs and higher network and technology costs. These expense increases were partially offset by lower sales costs and lower bad debt expense.

Depreciation expense increased in 2021, primarily due to ongoing capital spending for network upgrades and expansion partially offset by fully depreciated assets.

Operating income increased in 2021 and 2020. Our Mobility operating income margin was 29.8% in 2021, 30.8% in 2020 and 31.4% in 2019. Our Mobility EBITDA margin was 40.2% in 2021, 42.0% in 2020 and 42.7% in 2019.

Subscriber Relationships

As the wireless industry has matured, with nearly full penetration of smartphones in the U.S. population, future wireless growth will depend on our ability to offer innovative services, plans and devices that bundle product offerings and take advantage of our 5G wireless network, which went nationwide in July 2020. We believe 5G opens up vast possibilities of connecting sensors, devices, and autonomous things, commonly referred to as the Internet of Things (IoT). More and more, these devices are performing use cases that require high bandwidth, ultra-reliability and low latency that only 5G and edge computing can bring. To support higher mobile data usage, our priority is to best utilize a wireless network that has sufficient spectrum and capacity to support these innovations on as broad a geographic basis as possible. In January 2022, we began to deploy our C-band spectrum acquired in FCC Auction 107 (see Note 6).

To attract and retain subscribers in a mature and highly competitive market, we have launched a wide variety of plans, including our FirstNet and prepaid products, and arrangements that bundle our services. Virtually all of our postpaid smartphone subscribers are on plans that provide for service on multiple devices at reduced rates, and subscribers to such plans tend to have higher retention and lower churn rates. We offer unlimited data plans and subscribers to such plans also tend to have higher retention and lower churn rates. Our offerings are intended to encourage existing subscribers to upgrade their current services and/or add devices, attract subscribers from other providers and/or minimize subscriber churn. Subscribers that purchase two or more services from us have significantly lower churn than subscribers that purchase only one service.

Business Wireline Results

				Percent Change	
	2021	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Operating revenues					
Services	**$ 23,224**	$ 24,313	$ 25,116	**(4.5)%**	(3.2)%
Equipment	**713**	770	785	**(7.4)**	(1.9)
Total Operating Revenues	**23,937**	25,083	25,901	**(4.6)**	(3.2)
Operating expenses					
Operations and support	**14,755**	15,303	15,839	**(3.6)**	(3.4)
Depreciation and amortization	**5,192**	5,216	4,925	**(0.5)**	5.9
Total Operating Expenses	**19,947**	20,519	20,764	**(2.8)**	(1.2)
Operating Income	**3,990**	4,564	5,137	**(12.6)**	(11.2)
Equity in Net Income (Loss) of Affiliates	**—**	—	—	**—**	—
Operating Contribution	**$ 3,990**	$ 4,564	$ 5,137	**(12.6)%**	(11.2)%

Service revenues decreased in 2021, driven by lower demand for legacy voice and data services in the current year, proactive rationalization of low profit margin products and higher demand for pandemic-related connectivity in the prior-year. We expect this trend to continue.

Equipment revenues decreased in 2021, driven by declines in legacy and non-core services which we expect to continue.

Operations and support expenses decreased in 2021, primarily due to our continued efforts to drive efficiencies in our network operations through automation and reductions in customer support expenses through digitization and proactive rationalization of low profit margin products.

Depreciation expense decreased in 2021, primarily due to certain network assets becoming fully depreciated.

Operating income decreased in 2021 and 2020. Our Business Wireline operating income margin was 16.7% in 2021, 18.2% in 2020 and 19.8% in 2019. Our Business Wireline EBITDA margin was 38.4% in 2021, 39.0% in 2020 and 38.8% in 2019.

Consumer Wireline Results

				Percent Change	
	2021	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Operating revenues					
Broadband	**$ 9,085**	$ 8,534	$ 8,403	**6.5 %**	1.6 %
Legacy voice and data services	**1,977**	2,213	2,573	**(10.7)**	(14.0)
Other service and equipment	**1,477**	1,571	2,036	**(6.0)**	(22.8)
Total Operating Revenues	**12,539**	12,318	13,012	**1.8**	(5.3)
Operating expenses					
Operations and support	**8,467**	8,027	7,775	**5.5**	3.2
Depreciation and amortization	**3,095**	2,914	2,880	**6.2**	1.2
Total Operating Expenses	**11,562**	10,941	10,655	**5.7**	2.7
Operating Income	**977**	1,377	2,357	**(29.0)**	(41.6)
Equity in Net Income (Loss) of Affiliates	**—**	—	—	**—**	—
Operating Contribution	**$ 977**	$ 1,377	$ 2,357	**(29.0)%**	(41.6)%

The following tables highlight other key measures of performance for Consumer Wireline:

Connections

				Percent Change	
(in 000s)	**2021**	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Broadband Connections					
Total Broadband and DSL Connections	**14,160**	14,100	14,119	**0.4 %**	(0.1)%
Fiber Broadband Connections	**5,992**	4,951	3,887	**21.0**	27.4
Voice Connections					
Retail Consumer Switched Access Lines	**2,423**	2,862	3,329	**(15.3)**	(14.0)
U-verse Consumer VoIP Connections	**2,736**	3,231	3,794	**(15.3)**	(14.8)
Total Retail Consumer Voice Connections	**5,159**	6,093	7,123	**(15.3)%**	(14.5)%

Net Additions

				Percent Change	
(in 000s)	**2021**	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Broadband Net Additions					
Total Broadband and DSL Net Additions	**60**	(19)	(290)	**— %**	93.4 %
Fiber Broadband Net Additions	**1,041**	1,064	1,124	**(2.2)%**	(5.3)%

Broadband revenues increased in 2021, driven by an increase in fiber customers and pricing, which we expect to continue for the foreseeable future.

Legacy voice and data service revenues decreased in 2021, reflecting the continued decline in the number of customers, which we expect to continue.

Other service and equipment revenues decreased in 2021, reflecting the continued decline in the number of VoIP customers, which we expect to continue.

Operations and support expenses increased in 2021, primarily driven by higher advertising, technology and customer support costs, and content costs associated with plans bundling HBO Max. Partially offsetting these increases was lower amortization of deferred fulfillment costs, including updates to extend the estimated economic life of our subscribers.

Depreciation expense increased in 2021, primarily due to ongoing capital spending for network upgrades and expansion.

Operating income decreased in 2021 and 2020. Our Consumer Wireline operating income margin was 7.8% in 2021, 11.2% in 2020 and 18.1% in 2019. Our Consumer Wireline EBITDA margin was 32.5% in 2021, 34.8% in 2020 and 40.2% in 2019.

WARNERMEDIA SEGMENT

				Percent Change	
	2021	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Segment Operating Revenues					
Subscription	**$ 15,596**	$ 13,765	$ 13,651	**13.3 %**	0.8 %
Content and other	**13,514**	10,552	14,930	**28.1**	(29.3)
Advertising	**6,522**	6,125	6,678	**6.5**	(8.3)
Total Segment Operating Revenues	**35,632**	30,442	35,259	**17.0**	(13.7)
Segment Operating Expenses					
Direct Costs					
Programming	**15,286**	11,678	13,949	**30.9**	(16.3)
Marketing	**4,137**	2,529	2,953	**63.6**	(14.4)
Other	**3,658**	3,211	3,060	**13.9**	4.9
Selling, general and administrative	**4,656**	4,161	4,210	**11.9**	(1.2)
Depreciation and amortization	**656**	671	589	**(2.2)**	13.9
Total Operating Expenses	**28,393**	22,250	24,761	**27.6**	(10.1)
Operating Income	**7,239**	8,192	10,498	**(11.6)**	(22.0)
Equity in Net Income (Loss) of Affiliates	**38**	18	161	**—**	(88.8)
Total Segment Operating Contribution	**$ 7,277**	$ 8,210	$ 10,659	**(11.4)%**	(23.0)%

Our WarnerMedia segment is operated as a content organization that distributes across various platforms, including basic networks, Direct-to-Consumer (DTC) or theatrical, TV content and games licensing.

HBO Latin America Group (HBO LAG) is included as an equity method investment prior to our acquiring the remaining interest in May 2020. It is included in the segment operating results following the date of acquisition.

On May 17, 2021, we entered into an agreement to combine our WarnerMedia segment, subject to certain exceptions, with a subsidiary of Discovery Inc. On December 21, 2021, we entered into an agreement to sell the marketplace component of Xandr to Microsoft Corporation (Microsoft). (See Note 6)

Operating revenues increased in 2021 and decreased in 2020. The increase in 2021 was primarily due to increases in content and other, reflecting the partial recovery from prior-year impacts of the pandemic, and also in subscription revenues. The decrease in 2020 was primarily due to lower content and advertising revenues, which were negatively impacted by the pandemic, partially offset by higher subscription revenues.

Subscription revenues increased in 2021 and 2020, reflecting growth of DTC domestic HBO Max and HBO subscribers and the May 2020 acquisition of the remaining interest in HBO Latin America Group. DTC subscription revenues were $7,723 in 2021, versus $6,090 and $5,814 in 2020 and 2019, respectively, and include growth from intercompany relationships with the Communications segment.

Content and other revenues increased in 2021 and decreased in 2020. The increase in 2021 was due to higher TV production and licensing, which represent a partial recovery from prior-year impacts of the pandemic, as well as higher theatrical, with 2020 including only five worldwide theatrical releases compared to 17 in 2021. The

decrease in 2020 was primarily due to pandemic-related movie theater closures and television and theatrical production delays.

Advertising revenues increased in 2021 and decreased in 2020. The increase in 2021 was due to the return in 2021 of major sporting events, including the NCAA Division I Men's Championship Basketball Tournament. The decrease in 2020 was primarily due to the pandemic-related cancellation of sporting events, partially offset by higher news coverage of general elections and COVID-19 developments.

Direct costs increased in 2021 and decreased in 2020. The increase in 2021 was driven by higher film and programming costs and increased costs for HBO Max. Direct costs supporting DTC revenues were $7,934 in 2021, versus $5,452 and $3,824 in 2020 and 2019, respectively. The decrease in 2020 was primarily due to pandemic-related closures and production delays.

Selling, general and administrative expenses increased in 2021 and decreased in 2020. The increase in 2021 was primarily due to incremental selling costs associated with a DIRECTV advertising revenue sharing arrangement, partially offset by lower bad debt expense and integration of support functions. The decrease in 2020 was primarily due to lower print and advertising expenses from limited theatrical releases, lower distribution fees and cost-saving initiatives, partially offset by marketing costs associated with HBO Max.

Operating contribution decreased in 2021 and 2020. The WarnerMedia segment operating income margin was 20.3% in 2021, 26.9% in 2020 and 29.8% in 2019.

LATIN AMERICA SEGMENT

				Percent Change	
	2021	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Segment Operating Revenues					
Mexico	**$ 2,747**	$ 2,562	$ 2,869	**7.2 %**	(10.7)%
Vrio	**2,607**	3,154	4,094	**(17.3)**	(23.0)
Total Segment Operating Revenues	**5,354**	5,716	6,963	**(6.3)**	(17.9)
Segment Operating Contribution					
Mexico	**(510)**	(587)	(718)	**13.1**	18.2
Vrio	**80**	(142)	83	**—**	—
Total Segment Operating Contribution	**$ (430)**	$ (729)	$ (635)	**41.0 %**	(14.8)%

Our Latin America operations conduct business in their local currency and operating results are converted to U.S. dollars using official exchange rates, subjecting results to foreign currency fluctuations.

On November 15, 2021, we completed the sale of our Latin America video operations, Vrio, to Grupo Werthein (see Note 6).

Operating revenues decreased in 2021, reflecting the sale of Vrio partially offset by growth in the Mexico wireless operations. Foreign exchange pressure in Vrio was partially offset by improvements in Mexico.

Operating contribution improved in 2021, reflecting higher profitability in Mexico and lower depreciation resulting from Vrio assets being accounted for as held-for-sale. Our Latin America segment operating income margin was (8.1)% in 2021, (13.2)% in 2020 and (9.5)% in 2019.

Latin America Business Unit Discussion

Mexico Results

				Percent Change	
	2021	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Operating revenues					
Service	**$ 1,834**	$ 1,656	$ 1,863	**10.7 %**	(11.1)%
Equipment	**913**	906	1,006	**0.8**	(9.9)
Total Operating Revenues	**2,747**	2,562	2,869	**7.2**	(10.7)
Operating expenses					
Operations and support	**2,652**	2,636	3,085	**0.6**	(14.6)
Depreciation and amortization	**605**	513	502	**17.9**	2.2
Total Operating Expenses	**3,257**	3,149	3,587	**3.4**	(12.2)
Operating Income (Loss)	**(510)**	(587)	(718)	**13.1**	18.2
Equity in Net Income (Loss) of Affiliates	**—**	—	—	**—**	—
Operating Contribution	**$ (510)**	$ (587)	$ (718)	**13.1 %**	18.2 %

The following tables highlight other key measures of performance for Mexico:

				Percent Change	
(in 000s)	**2021**	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Mexico Wireless Subscribers					
Postpaid	**4,807**	4,696	5,103	**2.4 %**	(8.0)%
Prepaid	**15,057**	13,758	13,584	**9.4**	1.3
Reseller	**498**	489	472	**1.8**	3.6
Mexico Wireless Subscribers	**20,362**	18,943	19,159	**7.5 %**	(1.1)%

				Percent Change	
(in 000s)	**2021**	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Mexico Wireless Net Additions					
Postpaid	**111**	(407)	(608)	**— %**	33.1 %
Prepaid	**1,299**	174	1,919	**—**	(90.9)
Reseller	**9**	118	219	**(92.4)**	(46.1)
Mexico Wireless Net Additions	**1,419**	(115)	1,530	**— %**	— %

Service revenues increased in 2021, driven by improvements in foreign exchange and growth in other services.

Equipment revenues increased in 2021, driven by improvements in foreign exchange impact partly offset by lower equipment sales volumes.

Operations and support expenses increased in 2021, due to foreign exchange impact partially offset by lower expenses. Approximately 7% of Mexico expenses are U.S. dollar-based, with the remainder in the local currency.

Depreciation expense increased in 2021, reflecting higher in-service assets and foreign exchange impacts.

Operating income improved in 2021 and 2020. Our Mexico operating income margin was (18.6)% in 2021, (22.9)% in 2020 and (25.0)% in 2019. Our Mexico EBITDA margin was 3.5% in 2021, (2.9)% in 2020 and (7.5)% in 2019.

Vrio Results

				Percent Change	
	2021	2020	2019	**2021 vs. 2020**	2020 vs. 2019
Operating revenues	**$ 2,607**	$ 3,154	$ 4,094	**(17.3)%**	(23.0)%
Operating expenses					
Operations and support	**2,302**	2,800	3,378	**(17.8)**	(17.1)
Depreciation and amortization	**231**	520	660	**(55.6)**	(21.2)
Total Operating Expenses	**2,533**	3,320	4,038	**(23.7)**	(17.8)
Operating Income (Loss)	**74**	(166)	56	**—**	—
Equity in Net Income (Loss) of Affiliates	**6**	24	27	**(75.0)**	(11.1)
Operating Contribution	**$ 80**	$ (142)	$ 83	**— %**	— %

Operating revenues decreased in 2021, driven by the sale of Vrio and foreign exchange impacts.

Operations and support expenses decreased in 2021, driven by the sale of Vrio and foreign exchange impacts.

Depreciation expense decreased in 2021, due to ceasing depreciation on held-for-sale Vrio assets. We applied held-for-sale accounting to Vrio on June 30, 2021 and ceased depreciation beginning July 1, 2021.

Operating income improved in 2021 and 2020. Our Vrio operating income margin was 2.8% in 2021, (5.3)% in 2020 and 1.4% in 2019. Our Vrio EBITDA margin was 11.7% in 2021, 11.2% in 2020 and 17.5% in 2019.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

2022 Revenue Trends We expect revenue growth in our wireless and broadband businesses as customers demand instant connectivity and higher speeds made possible by wireless network enhancements through 5G deployment and our fiber network expansion. We also expect revenue growth from continued investment in premium content and by expanding the international reach of HBO Max.

In our Communications segment, we expect that our simplified go-to-market strategy for 5G in underpenetrated markets will continue to contribute to wireless subscriber and service revenue growth and that expansion of our fiber footprint and our new multi-gig rollout will drive greater demand for broadband services on our fast-growing fiber network.

In our WarnerMedia segment, we expect our video streaming platform, HBO Max, and premium content will continue to drive revenue growth. The pandemic-related partial closure of movie theaters is expected to continue to pressure revenues; however, we are working towards a shorter but exclusive theatrical window for our 2022 film slate. The decline in viewing on our basic cable networks is expected to continue as consumers continue to increase their use of streaming platforms.

As we expand our fiber reach, we will be orienting our business portfolio to leverage this opportunity to offset continuing declines in legacy business wireline products by growing connectivity with small to mid-sized business. We plan to use our strong fiber and wireless assets, broad distribution and converged product offers to strengthen our overall market position. We will continue to deemphasize non-core services with a longer-term shift of the business to fiber and mobile connectivity, and growth in value-added services.

2022 Expense Trends We expect the spending required to support growth initiatives, primarily our continued deployment of fiber and 5G, including 3G shutdown costs in the first quarter of 2022, as well as continued investment into the HBO Max platform, to pressure expense trends in 2022. To the extent 5G handset introductions continue in 2022, and as anticipated, the expenses associated with those device sales are expected to contribute to higher costs. During 2022, we will also continue to prioritize efficiency, led by our cost transformation initiative and continued transition from our hardware-based network technology to more efficient and less expensive software-based technology. These investments will help prepare us to meet increased customer demand for enhanced wireless and broadband services, including video streaming, augmented reality and "smart" technologies. The software benefits of our 5G wireless technology should result in a more efficient use of capital and lower network-related expenses in the coming years.

We continue to transform our operations to be more efficient and effective, reinvesting savings into growth areas of the business. We are restructuring businesses, sunsetting legacy networks, improving customer service and ordering functions through digital transformation, sizing our support costs and staffing with current activity levels, and reassessing overall benefit costs. Cost savings and asset sales align with our focus on debt reduction.

Market Conditions The U.S. stock market experienced steady growth in 2021; however, several factors, including the global pandemic, have resulted in changes in demand in business communication services. The global pandemic has caused, and could again cause, delays in the development, manufacturing (including the sourcing of key components) and shipment of products, as well as continued tight labor market and actual or perceived inflation. Most of our products and services are not directly affected by the imposition of tariffs on Chinese goods. However, we expect ongoing pressure on pricing during 2022 as we respond to the competitive marketplace, especially in wireless 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). We expect only minimal ERISA contribution requirements to our pension plans for 2022. Investment returns on these assets depend largely on trends in the economy, and a weakness in the equity, fixed income and real asset markets could require us to make future contributions to the pension plans. 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; however, these actuarial gains and losses do not impact segment performance as they are required to be recorded in "Other income (expense) – net." 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 2022 (see "Critical 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. Nonetheless, over the ensuing two decades, 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. More recently, the FCC has pursued a more deregulatory agenda, eliminating a variety of antiquated and unnecessary regulations and streamlining its processes in a number of areas. We continue to support regulatory and legislative measures and efforts, at both the state and federal levels, to reduce inappropriate regulatory burdens that inhibit our ability to compete effectively and offer needed services to 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.

Communications Segment

Internet The FCC currently classifies fixed and mobile consumer broadband services as information services, subject to light-touch regulation. The D.C. Circuit upheld the FCC's current classification, although it remanded three discrete issues to the FCC for further consideration. These issues related to the effect of the FCC's decision to classify broadband services as information services on public safety, the regulation of pole attachments, and universal service support for low-income consumers through the Lifeline program. Because no party sought Supreme Court review of the D.C. Circuit's decision to uphold the FCC's classification of broadband as an information service, that decision is final.

In October 2020, the FCC adopted an order addressing the three issues remanded by the D.C. Circuit for further consideration. After considering those issues, the FCC concluded they provided no grounds to depart from its determination that fixed and mobile consumer broadband services should be classified as information services. An appeal of the FCC's remand decision is pending.

Some states have adopted legislation or issued executive orders that would reimpose net neutrality rules repealed by the FCC. Suits have been filed concerning such laws in California and Vermont. The California statute is now in effect, and the lawsuit regarding the Vermont statute has been stayed pending resolution of any appeal of the California lawsuit. We expect that going forward additional states may seek to impose net neutrality requirements.

On November 15, 2021, President Biden signed the Infrastructure Investment and Jobs Act (IIJA) into law. The legislation appropriates $65,000 to support broadband deployment and adoption. The National Telecommunications and Information Agency (NTIA) is responsible for distributing more than $48,000 of this funding, including $42,500 in state grants for broadband deployment projects in unserved and underserved areas. NTIA will establish rules for this program in the first half of 2022. The IIJA also appropriated $14,200 for establishment of the Affordable Connectivity Program (ACP), an FCC-administered monthly, low-income broadband benefit program, replacing the Emergency Broadband Benefit program (established in December 2020 by the Consolidated Appropriations Act 2021). Qualifying customers can receive up to thirty dollars per month (or seventy-five dollars per month for those on Tribal lands) to assist with their internet bill. AT&T is a participating provider in the ACP program and will consider participating in the deployment program where appropriate. The IIJA includes various provisions that will result in FCC proceedings regarding ACP program administration and consumer protection, reform of the existing universal support program, and broadband labeling and equal access.

Privacy-related legislation continues to be adopted or considered in a number of jurisdictions. Legislative, regulatory and litigation actions could result in increased costs of compliance, further regulation or claims against broadband internet access service providers and others, and increased uncertainty in the value and availability of data.

Wireless Industry-wide network densification and 5G technology expansion efforts, which are needed to satisfy extensive demand for video and internet access, will involve significant deployment of "small cell" equipment. This increases the importance of local permitting processes that allow for the placement of small cell equipment in the public right-of-way on reasonable timelines and terms. Between 2018 and 2020, the FCC adopted multiple Orders streamlining federal, state, and local wireless structure review processes that had the tendency to delay and impede deployment of small cell and related infrastructure used to provide telecommunications and broadband services. The key elements of these orders have been affirmed on judicial review. During 2020-2021, we have also deployed 5G nationwide on "low band" spectrum on macro towers. Executing on the recent spectrum purchase, we announced on-going construction and continuing deployment of 5G on C-band spectrum in 2022 and beyond.

WarnerMedia Segment

We create, own and distribute intellectual property, including copyrights, trademarks and licenses of intellectual property. To protect our intellectual property, we rely on a combination of laws and license agreements. Outside of the U.S., laws and regulations relating to intellectual property protection and the effective enforcement of these laws and regulations vary greatly from country to country. The European Union Commission is pursuing legislative and regulatory initiatives which could impact WarnerMedia's activities in the EU. Piracy, particularly of digital content, continues to threaten WarnerMedia's revenues from products and services, and we work to limit that threat through a combination of approaches, including technological and legislative solutions. Outside the U.S., various laws and regulations, as well as trade agreements with the U.S., also apply to the distribution or licensing of feature films for exhibition in movie theaters and on broadcast and cable networks. For example, in certain countries, including China, laws and regulations limit the number of foreign films exhibited in such countries in a calendar year.

EXPECTED GROWTH AREAS

Over the next few years, we expect our growth to come from wireless and IP-based fiber broadband services. We provide integrated services to diverse groups of customers in the U.S. on an integrated telecommunications network utilizing different technological platforms. In 2022, our key initiatives include:

- Continuing our wireless subscriber momentum while increasing the pace of our 5G deployment and expansion of 5G service, including to underpenetrated markets.
- Improving fiber penetration, accelerating subscriber growth and increasing broadband revenues.
- Increasing international subscriber base for HBO Max, our platform for premium content and video offered directly to consumers, as well as through other distributors.
- Continuing to develop efficiencies and a competitive advantage through cost transformation initiatives and product simplification.

Wireless We expect to continue 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. As of December 31, 2021, we served 222 million wireless subscribers in North America, with more than 202 million in the United States.

Our LTE technology covers over 434 million people in North America, and in the United States, we cover all major metropolitan areas and over 330 million people. We also provide 4G coverage using another technology (HSPA+), and when combined with our upgraded backhaul network, we provide enhanced network capabilities and superior mobile broadband speeds for data and video services. In December 2018, we introduced the nation's first commercial mobile 5G service and expanded that deployment nationwide in July 2020. At December 31, 2021, our network covers more than 250 million people with 5G technology in the United States and North America.

Our networks covering both the U.S. and Mexico have 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. As of the end of 2021, we provided LTE coverage to over 104 million people in Mexico.

As the communications industry has evolved into internet-based technologies capable of blending wireline and wireless services, we plan to focus on expanding our wireless network capabilities and provide broadband offerings that allow customers to integrate their home or business fixed services with their mobile service. In January 2022, we launched our multi-gig rollout, which brings the fastest internet to AT&T Fiber customers with symmetrical 2 gig and 5 gig tiers. We will continue to develop and provide unique integrated mobile and broadband/fiber solutions.

REGULATORY DEVELOPMENTS

Set forth below is a summary of the most significant regulatory proceedings that directly affected our operations during 2021. 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 territories in which the subsidiaries operate. Our licensing, compliance and advocacy initiatives in foreign countries primarily enable the provision of enterprise (i.e., large business) globally and wireless services in Mexico.

The General Data Protection Regulation went into effect in Europe in May of 2018. AT&T processes and handles personal data of its customers and subscribers, employees of its enterprise customers and its employees. This regulation created a range of new compliance obligations and significantly increased financial penalties for noncompliance.

Federal Regulation We have organized our following discussion by service impacted.

Internet 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. In December 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. On October 1, 2019, the D.C. Circuit issued a unanimous opinion upholding the FCC's reclassification of broadband as an information service, and its reliance on transparency requirements and competitive marketplace dynamics to safeguard net neutrality. Because no party sought Supreme Court review of the D.C. Circuit's decision to uphold the FCC's classification of broadband as an information service, that decision is final. While the court vacated the FCC's express preemption of any state regulation of net neutrality, it stressed that its ruling did not prevent the FCC or ISPs from relying on conflict preemption to invalidate particular state laws that are inconsistent with the FCC's regulatory objectives and framework. The court also remanded the matter to the FCC for further consideration of the impact of reclassifying broadband services as information services on public safety, the Lifeline program, and pole attachment regulation. In October 2020, the FCC adopted an order concluding that those issues did not justify reversing its decision to reclassify broadband services as information services. An appeal of the FCC's remand decision is pending.

Following the FCC's 2017 decision to reclassify broadband as information services, a number of states adopted legislation to reimpose the very rules the FCC repealed. In some cases, state legislation imposes requirements that go beyond the FCC's February 2015 order. Additionally, some state governors have issued executive orders that effectively reimpose the repealed requirements. Suits have been filed concerning laws in California and Vermont. Both lawsuits were stayed pursuant to agreements by those states not to enforce their laws pending final resolution of all appeals of the FCC's December 2017 order. Because that order is now final, the California suit has returned to active status. In January 2021, a U.S. District Court in California denied a request for a preliminary injunction against enforcement of the California law. As a consequence, the California statute now is in effect. The trade associations challenging the statute have appealed the denial of their request for preliminary injunction to the Ninth Circuit; that appeal remains pending. The lawsuit regarding the Vermont statute has been stayed pending the Ninth Circuit's resolution of the appeal or April 15, 2022, whichever occurs first. We expect that going forward additional states may seek to impose net neutrality requirements. We will continue to support congressional action to codify a set of standard consumer rules for the internet.

Privacy-related legislation continues to be adopted or considered in a number of jurisdictions. Legislative, regulatory and litigation actions could result in increased costs of compliance, further regulation or claims against broadband internet access service providers and others, and increased uncertainty in the value and availability of data.

Wireless and Broadband In June and November 2020, the FCC issued a Declaratory Ruling clarifying the limits on state and local authority to deny applications to modify existing structures to accommodate wireless facilities. Appeals of the November 2020 order remain pending in the Ninth Circuit Court of Appeals, following multiple requests by the FCC to hold the appeal in abeyance until the Senate confirms a fifth FCC Commissioner. If sustained on appeal, these FCC decisions will remove state and local regulatory barriers and reduce the costs of the infrastructure needed for 5G and FirstNet deployments, which will enhance our ability to place small cell facilities on utility poles, expand existing facilities to accommodate public safety services, and replace legacy facilities and services with advanced broadband infrastructure and services. During 2020-2021, we have also deployed 5G nationwide on "low band" spectrum on macro towers. Executing on the recent spectrum purchase, we announced on-going construction and continuing deployment of 5G on C-band spectrum in 2022 and beyond.

In March 2020, the FCC released its order setting rules for certain spectrum bands (C-band) for 5G operations. In that order, the FCC concluded that C-band 5G services that met the agency's technical limits on power and emissions would not cause harmful interference with aircraft operations. In reliance on that order, AT&T bid a total of $23,406 and was awarded 1,621 C-band licenses, including 40 MHz nationwide available for deployment in December 2021, with the remainder available for deployment in December 2023. In late 2021, the Federal Aviation Administration (FAA) questioned whether the C-band launch could impact radio altimeter equipment on airplanes, which operate on spectrum bands over 400 MHz away from the spectrum AT&T is launching in 2022. In response, to allow the FAA more time to evaluate, AT&T and Verizon delayed their planned December 2021 5G C-band launch by six weeks and voluntarily committed to a series of temporary, precautionary measures, in addition to deferring turning on a limited number of towers around certain airports. On January 19, 2022, we launched 5G C-band services, subject to these voluntary temporary measures.

In recent years, the FCC took several actions to make spectrum available for 5G services, including the auction of 280 MHz of mid-band spectrum used for satellite

service (the "C Band" auction) and 39 GHz band spectrum. AT&T obtained spectrum in these auctions (see "Other Business Matters"). The FCC also made 150 MHz of mid-band CBRS spectrum available, to be shared with Federal incumbents, which enjoy priority. In addition, the FCC recently completed Auction 110, in which AT&T won 40 MHz of spectrum nationwide at a cost of $9,079.

Following enactment in December 2019 of the Pallone-Thune Telephone Robocall Abuse Criminal Enforcement and Deterrence Act (TRACED Act) by Congress, the FCC adopted new rules requiring voice service providers to implement caller ID authentication protocols (known as STIR/SHAKEN) and adopt robocall mitigation measures. These measures apply to portions of their networks where STIR/SHAKEN is not enabled, in addition to other anti-robocall measures. The new rules contemplate ongoing FCC oversight and review of efforts related to STIR/SHAKEN implementation. Among other goals, the FCC has stated its intention to promote the IP transition through its rules.

In September 2019, the FCC released reformed aspects of its intercarrier compensation regime related to tandem switching and transport charges, with the goal of reducing the prevalence of telephone access arbitrage schemes. In October 2020, the FCC further reformed aspects of its intercarrier compensation regime by greatly reducing, and in some cases eliminating, the charges long distance carriers must pay to originating carriers for toll-free calls. Appeals of both orders are pending at the D.C. Circuit Court of Appeals.

COMPETITION

Competition continues to increase for communications, media entertainment and digital services from traditional and nontraditional competitors. 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 alternative communications service providers. As a result, we face continuing competition as well as some new opportunities in significant portions of our business.

Wireless We face substantial 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. Our competitors include two national wireless providers; a larger number of regional providers and resellers of those services; and certain cable companies. In addition, we face competition from providers who offer voice, text messaging and other services as applications on data networks. We are one of four facilities-based providers in Mexico (retail and wholesale), 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.

Broadband The desire for high-speed data on demand, including video, is continuing to lead customers to terminate their traditional wired or linear services and use our fiber services or competitors' wireless, satellite and internet-based services. In most U.S. markets, we compete for customers with large cable companies for high-speed internet and voice services, wireless broadband providers, and other smaller telecommunications companies for both long-distance and local services.

Legacy Voice and Data 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 they are subject to 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 with us. We continue to focus on bundling services and will continue to develop innovative and integrated services that capitalize on our wireless and IP-based network.

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.

Media Our WarnerMedia businesses face shifts in consumer viewing patterns, increased competition from streaming services and the expansion by other companies, in particular, technology companies. In May 2020, we launched HBO Max, our platform for premium content and video offered directly to consumers, as well as through our traditional distributors.

WarnerMedia competes with other studios and television production groups and independents to produce and sell programming. Many television networks and online platforms have affiliated production companies from

which they are increasingly obtaining their programming, which has reduced their demand for programming from non-affiliated production companies. WarnerMedia also faces competition from other television networks, online platforms, and premium pay television services for distribution and marketing of its television networks and premium pay and basic tier television services by affiliates.

Our WarnerMedia businesses compete with other production companies and studios for the services of producers, directors, writers, actors and others and for the acquisition of literary properties. In recent years, technology companies also have begun to produce programming and compete with WarnerMedia for talent and property rights.

Advertising The increased amount of consumer time spent online and on mobile activities has resulted in the shift of advertising budgets away from traditional television to digital advertising. WarnerMedia's advertising-supported television networks and digital properties compete with streaming services, other networks and digital properties, print, radio and other media. Our programmatic advertising business faces competition from a variety of technology companies. Similar to all participants in the advertising technology sector, we contend with the dominance of Google, as well as the influence of Facebook, whose practices may result in the decreased ability and willingness of advertisers and programmers to adopt programmatic solutions offered by alternative suppliers. In December 2021, we entered into an agreement to sell the marketplace component of Xandr (see Note 6).

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.

Pension and Postretirement Benefits Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 15. Our assumed weighted-average discount rates for pension and postretirement benefits of 3.00% and 2.80%, respectively, at December 31, 2021, reflect 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 had an average rating of at least Aa3 or AA- by the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2021, when compared to the year ended December 31, 2020, we increased our pension discount rate by 0.30%, resulting in a decrease in our pension plan benefit obligation of $1,645, and increased our postretirement discount rate by 0.40%, resulting in a decrease in our postretirement benefit obligation of $341.

Our expected long-term rate of return is 6.75% on pension plan assets and 4.50% on postretirement plan assets for 2022 and for 2021. Our expected return on plan assets is calculated using the actual fair value of plan assets. If all other factors were to remain unchanged, we expect that a 0.50% decrease in the expected long-term rate of return would cause 2022 combined pension and postretirement cost to increase $272, 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.

We recognize gains and losses on pension and postretirement plan assets and obligations immediately in "Other income (expense) – net" in our consolidated statements of income. 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. See Note 15 for additional discussions regarding our assumptions.

Depreciation Our depreciation of assets, including use of composite group depreciation for certain subsidiaries and estimates of useful lives, is described in Notes 1 and 7.

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 $2,702 in our 2021 depreciation expense and that a one-year decrease would have resulted in an increase of approximately $3,700 in our 2021 depreciation expense. See Notes 7 and 8 for depreciation and amortization expense applicable to property, plant and equipment, including our finance lease right-of-use assets.

Asset Valuations and Impairments

Goodwill and other indefinite-lived intangible assets are not amortized but tested at least annually on October 1 for impairment. For impairment testing, we estimate fair values using models that predominantly rely on the expected cash flows to be derived from the reporting unit or use of the asset. Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the book value may not be recoverable over the remaining life. Inputs underlying the expected cash flows

include, but are not limited to, subscriber counts, revenues from subscriptions, advertising and content, revenue per user, capital investment and acquisition costs per subscriber, production and content costs, and ongoing operating costs. We based our assumptions on a combination of our historical results, trends, business plans and marketplace participant data.

Annual Goodwill Testing

Goodwill is tested 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 model) and a market multiple approach. The income approach utilizes our future 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.

Effective January 1, 2021, we updated our reporting units to reflect changes in how WarnerMedia, an integrated content organization that distributes across various platforms, is managed and evaluated. With this operational change, the reporting unit is deemed to be the operating segment. The previous reporting units, Turner, Home Box Office, Warner Bros., and Xandr, and the new WarnerMedia reporting unit were tested for goodwill impairment on January 1, 2021, for which there was no impairment identified.

As of October 1, 2021, the calculated fair values of the reporting units exceeded their book values in all circumstances; however, the WarnerMedia segment fair value exceeded its book value by less than 10% with increased investment in content and distribution expenses affecting fair value. For all reporting units, if either the projected rate of long-term growth of cash flows or revenues declined by 0.5%, or if the weighted average cost of capital 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 still would have exceeded the book values of the reporting units. For the WarnerMedia reporting unit as of October 1, 2021, if the projected rate of longer-term growth of cash flows or revenues declined by 4.4%, or if the weighted average cost of capital increased by 0.6%, it would have resulted in impairment of the goodwill.

U.S. Wireless Licenses

The fair value of U.S. wireless licenses is assessed using a discounted cash flow model (the Greenfield Approach) and a qualitative collaborative 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. These licenses are tested annually for impairment on an aggregated basis, consistent with their use on a national scope for the United States. 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. We used a discount rate of 9.25%, based on the optimal long-term capital structure of a market participant and its associated cost of debt and equity for the licenses, 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 these wireless licenses would still be higher than the book value of the licenses. The fair value of these wireless licenses exceeded their book values by more than 10%.

Other Finite-Lived Intangibles

Customer relationships, licenses in Mexico and other finite-lived intangible assets are reviewed for impairment whenever events or circumstances indicate that the book value 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. When the asset's book value exceeds undiscounted future cash flows, an impairment is recorded to reduce the book value of the asset to its estimated fair value (see Notes 7 and 9).

Vrio Business

In the second quarter of 2021, we classified the Vrio disposal group as held-for-sale and reported the disposal group at fair value less cost to sell, which resulted in a noncash, pre-tax impairment charge of $4,555, including approximately $2,100 related to accumulated foreign currency translation adjustments and $2,500 related to property, plant and equipment and intangible assets. Approximately $80 of the impairment was attributable to noncontrolling interest. Vrio was sold in November 2021, resulting in the release of the accumulated foreign currency translation adjustments from accumulated other comprehensive income. (See Notes 3, 7 and 9)

Income Taxes Our estimates of income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 14 and reflect our assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and probability of these estimates. Actual income taxes could vary from these estimates due to future changes in income tax law or the final review of our tax returns by federal, state or foreign tax authorities.

We use our judgment to determine whether it is more likely than not that we will sustain positions that we have taken on tax returns and, if so, the amount of benefit to

initially recognize within our financial statements. We regularly review our uncertain tax positions and adjust our unrecognized tax benefits (UTBs) in light of changes in facts and circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law. These adjustments to our UTBs may affect our income tax expense. Settlement of uncertain tax positions may require use of our cash.

New Accounting Standards

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

OTHER BUSINESS MATTERS

Spectrum Auction On February 24, 2021, the FCC announced that AT&T was the winning bidder for 1,621 C-Band licenses, comprised of a total of 80 MHz nationwide, including 40 MHz in Phase I. We provided to the FCC an upfront deposit of $550 in 2020 and cash payments totaling $22,856 in the first quarter of 2021, for a total of $23,406. We received the licenses in July 2021 and classified the auction deposits, related capitalized interest and billed relocation costs as "Licenses – Net" on our December 31, 2021 consolidated balance sheet. In December 2021, we paid $955 of Incentive Payments for the clearing of Phase I spectrum and estimate that we will be responsible for an additional $2,112 upon clearing of Phase II spectrum, expected by the end of 2023. Additionally, we are responsible for approximately $1,000 of compensable relocation costs over the next several years as the spectrum is being cleared by satellite operators, of which $650 was paid in the fourth quarter of 2021.

On January 14, 2022, the FCC announced that we were the winning bidder for 1,624 3.45 GHz licenses in Auction 110. We provided the FCC an upfront deposit of $123 in the third quarter of 2021 and will pay the remaining $8,956 in the first quarter of 2022, for a total of $9,079. We intend to fund the purchase price using cash and short-term investments.

Video Business On July 31, 2021, we closed our transaction with TPG to form a new company named DIRECTV, which is jointly governed by a board with representation from both AT&T and TPG, with TPG having tie-breaking authority on certain key decisions. With the close of the transaction, we separated our Video business, comprised of our U.S. video operations, and began accounting for our investment in DIRECTV under the equity method.

In connection with the transaction, we contributed our U.S. Video business unit to DIRECTV for $4,250 of junior preferred units, an additional distribution preference of $4,200 and a 70% economic interest in common units (collectively "equity considerations"). Upon close, we received approximately $7,170 in cash from DIRECTV ($7,600, net of $430 cash on hand) and transferred $195 of DIRECTV debt. TPG contributed approximately $1,800 in cash to DIRECTV for $1,800 of senior preferred units and a 30% economic interest in common units. As part of this transaction, we agreed to cover net losses under the NFL SUNDAY TICKET contract up to a cap of $2,100 over the remaining period of the contract, of which $1,800 was a note payable to DIRECTV.

Under separate transition services agreements, we will provide DIRECTV certain operational support for up to three years. We also have entered into commercial arrangements, for up to five years, to provide network transport for U-verse products and sales services.

WarnerMedia On May 17, 2021, we entered into an agreement to combine our WarnerMedia segment, subject to certain exceptions, with a subsidiary of Discovery, Inc. (Discovery). The agreement is structured as a Reverse Morris Trust transaction, under which WarnerMedia will be distributed to AT&T's shareholders via a pro rata dividend, an exchange offer, or a combination of both, followed by its combination with Discovery. The transaction is expected to be tax-free to AT&T and AT&T's shareholders. AT&T will receive approximately $43,000 (subject to working capital and other adjustments) in a combination of cash, debt securities, and WarnerMedia's retention of certain debt. AT&T's shareholders will receive stock representing approximately 71% of the new company; Discovery shareholders will own approximately 29% of the new company.

On February 1, 2022, we announced that we will structure the distribution as a spin-off rather than an exchange offer. Upon closing of the transaction, each AT&T shareholder will receive, on a tax-free basis, an estimated 0.24 shares of the new company for each share of AT&T common stock held as of the record date for the pro rata distribution. The exact number of shares to be received by AT&T shareholders for each AT&T common share will be determined closer to the closing based on the number of shares of AT&T common stock outstanding and the number of shares of Discovery common stock outstanding on an as-converted and as-exercised basis. AT&T shareholders will continue to hold the same number of shares of AT&T common stock after the transaction closes.

The transaction is expected to close in the second quarter of 2022, subject to approval by Discovery shareholders and customary closing conditions, including receipt of regulatory approvals. No vote is required by AT&T shareholders. Upon close of the transaction, WarnerMedia will be deconsolidated.

The merger agreement contains certain customary termination rights for AT&T and Discovery, including, without limitation, a right for either party to terminate if the transaction is not completed on or before July 15, 2023. Termination fees under specified circumstances will require Discovery to pay AT&T $720 or AT&T to pay Discovery $1,770.

Magallanes, Inc. (Spinco), a subsidiary of AT&T, entered into a $41,500 commitment letter (Bridge Loan) on May 17, 2021. On June 4, 2021, Spinco entered into a $10,000 term loan credit agreement (Spinco Term Loan) and reduced the aggregate commitment amount under the Bridge Loan to $31,500. There have been no draws on the Bridge Loan or the Spinco Term Loan. In the event advances are made under the Bridge Loan or Spinco Term Loan, those advances will be used by Spinco to finance a portion of the cash distribution to AT&T in connection with the transaction.

On September 20, 2021, we sold WarnerMedia's mobile games app studio, Playdemic Ltd. for approximately $1,370 in cash and recognized a pre-tax gain of $706. Playdemic was excluded from the pending WarnerMedia/Discovery transaction.

On December 21, 2021, we entered into an agreement to sell the marketplace component of Xandr, our WarnerMedia advertising business that was not included in the WarnerMedia/Discovery transaction, to Microsoft, which is expected to close in 2022, subject to customary regulatory approvals.

Vrio On November 15, 2021, we sold our Latin America video operations, Vrio, to Grupo Werthein. In the second quarter of 2021, we classified the Vrio disposal group as held-for-sale and reported the disposal group at fair value less cost to sell, which resulted in a noncash, pre-tax impairment charge of $4,555, including approximately $2,100 related to accumulated foreign currency translation adjustments and $2,500 related to property, plant and equipment and intangible assets. Approximately $80 of the impairment was attributable to noncontrolling interest. We retained our 41.3% interest in SKY Mexico, a leading pay-TV provider in Mexico.

Labor Contracts As of January 31, 2022, we employed approximately 203,000 persons. Approximately 37% 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 collective bargaining agreements, work stoppages or labor disruptions may occur in the absence of new contracts or other agreements being reached. The main contracts included the following:

- A contract covering approximately 12,000 Mobility employees in 36 states and the District of Columbia is set to expire in February 2022.
- A contract covering approximately 6,000 wireline employees in five Midwest states that was set to expire in April 2022 was extended for a four-year period until April 2026.
- A contract covering approximately 3,000 MW IBEW employees is set to expire in June 2022.
- A contract covering approximately 2,000 AT&T Corp. employees nationwide that was set to expire in April 2022 was extended for a four-year period until April 2026.
- A contract covering approximately 170 Teamsters Alascom employees in Alaska is set to expire in February 2022.

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 three 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

For the years ended December 31,	**2021**	2020	2019
Cash provided by operating activities	**$ 41,957**	$ 43,130	$ 48,668
Cash used in investing activities	**(32,089)**	(13,548)	(16,690)
Cash provided by (used in) financing activities	**1,578**	(32,007)	(25,083)

At December 31,	**2021**	2020
Cash and cash equivalents	**$ 21,169**	$ 9,740
Total debt	**177,354**	157,245

We had $21,169 in cash and cash equivalents available at December 31, 2021. Cash and cash equivalents included cash of $5,204 and money market funds and other cash equivalents of $15,965. Approximately $2,706 of our cash and cash equivalents were held by our foreign entities in accounts predominantly outside of the U.S. and may be subject to restrictions on repatriation.

Cash and cash equivalents increased $11,429 since December 31, 2020. In 2021, cash inflows were primarily provided by cash receipts from operations, including cash from our sale and transfer of our receivables to third parties, the disposition of businesses, including our recently completed U.S. video business transaction, and issuance of long-term debt and commercial paper. These inflows were offset by cash used to meet the needs of the business, including, but not limited to, payment of operating expenses, spectrum acquisitions, funding capital expenditures and vendor financing payments, investment in WarnerMedia content and dividends to stockholders.We maintain significant availability under our credit facilities and our commercial paper program to meet our short-term liquidity requirements.

Our cash and debt management will be impacted by the WarnerMedia/Discovery transaction. During this time, we plan to maintain cash and cash equivalent balances above historical thresholds.

Refer to "Contractual Obligations" discussion below for additional information regarding our cash requirements, including payments required for Auction 110 which was completed in January 2022. We will make the remaining payment of $8,956 for Auction 110 spectrum in the first quarter of 2022, funded with cash and short-term investments.

Cash Provided by or Used in Operating Activities

During 2021, cash provided by operating activities was $41,957 compared to $43,130 in 2020, reflecting higher content investment and the separation of the U.S. video business, partially offset by higher receivable securitizations in 2021. Total cash paid for WarnerMedia's content investment was $19,164 in 2021, an increase of $4,266 over 2020.

We actively manage the timing of our supplier payments for operating items to optimize the use of our cash. Among other things, we seek to make payments on 90-day or greater terms, while providing the suppliers with access to bank facilities that permit earlier payments at their cost. In addition, for payments to a key supplier, as part of our working capital initiatives, we have arrangements that allow us to extend payment terms up to 90 days at an additional cost to us (referred to as supplier financing). The net impact of supplier financing was to improve cash from operating activities $25 in 2021 and $432 in 2020. All supplier financing payments are due within one year.

Cash Used in or Provided by Investing Activities

During 2021, cash used in investing activities totaled $32,089, and consisted primarily of $16,527 (including interest during construction) for capital expenditures, and acquisitions of $25,453, which includes C-Band spectrum licenses won in Auction 107, associated capitalized interest, clearing and compensable relocation costs. Investing activities also included cash receipts of approximately $5,370 (excluding cash on hand and $1,800 of financing activities) from the separation of our Video business and $2,910 from the sale of Otter Media assets and Playdemic. In 2021, we received a return of investment of $1,323 from DIRECTV representing distributions in excess of cumulative equity in earnings from DIRECTV (see Note 10).

On January 14, 2022, the FCC announced that we were the winning bidder for 1,624 3.45 GHz licenses in Auction 110. We provided the FCC an upfront deposit of $123 in the third quarter of 2021 and will pay the remaining $8,956 in the first quarter of 2022, for a total of $9,079. We intend to fund the purchase price using cash and short-term investments. (See Note 6)

For capital improvements, we have negotiated favorable vendor payment terms of 120 days or more (referred to as vendor financing) with some of our vendors, which are excluded from capital expenditures and reported as financing activities. Vendor financing payments were $4,596 in 2021, compared to $2,966 in 2020. Capital expenditures in 2021 were $16,527, and when including $4,596 cash paid for vendor financing and excluding $515 of FirstNet reimbursements, gross capital investment was $21,638 ($1,934 higher than the prior year).

The vast majority of our capital expenditures are spent on our networks, including product development and related support systems. In 2021, we placed $5,282 of equipment in service under vendor financing arrangements (compared to $4,664 in 2020) and approximately $750 of assets related to the FirstNet build (compared to $1,230 in 2020). Total reimbursements from the government for FirstNet were $865 for 2021 and $1,626 for 2020, predominantly for capital expenditures.

The amount of our capital expenditures is influenced by demand for services and products, capacity needs and network enhancements. In 2022, we expect that our gross capital investment, which includes capital expenditures and cash paid for vendor financing, will be in the $24,000 range with capital expenditures in the $20,000 range.

Cash Used in or Provided by Financing Activities

In 2021, cash provided by financing activities totaled $1,578 and was comprised of debt issuances and repayments, payments of dividends, and vendor financing payments. We also paid approximately $459 in cash on the $1,800 note payable to DIRECTV (see Note 6 and Note 20).

A tabular summary of our debt activity during 2021 is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year 2021
Net commercial paper borrowings[1]	$ 7,072	$ (513)	$ (2)	$ 4	$ 6,561
Issuance of Notes and Debentures[2]:					
U.S. dollar denominated global notes	$ 6,000	$ —	$ —	$ —	$ 6,000
Initial average rate of 1.27%					
Euro denominated global notes (converted to USD at issuance)	1,461	—	—	—	1,461
Rate of 0.00%					
2021 Syndicated Term Loan	7,350	—	—	—	7,350
BAML Bilateral Term Loan	2,000	—	—	—	2,000
Private financing	750	—	—	—	750
Other	636	—	835	—	1,471
Debt Issuances	$ 18,197	$ —	$ 835	$ —	$ 19,032
Repayments:					
Private financing	$ (649)	$ —	$ —	$ —	$ (649)
2.650% Euro denominated global notes due 2021	—	—	—	(1,349)	(1,349)
Other	(253)	(253)	(498)	(140)	(1,144)
Repayments of long-term debt	$ (902)	$ (253)	$ (498)	$ (1,489)	$ (3,142)

[1] Includes $1,316 net issuance of commercial paper with original maturities of three months or less, $12,755 of commercial paper issued greater than 90 days and $7,510 of commercial paper repaid greater than 90 days.
[2] Includes credit agreement borrowing.

The weighted average interest rate of our long-term debt portfolio, including, credit agreement borrowings and the impact of derivatives, was approximately 3.8% as of December 31, 2021 and 4.1% as of December 31, 2020. We had $169,147 of total notes and debentures outstanding at December 31, 2021, which included Euro, British pound sterling, Canadian dollar, Mexican peso, Australian dollar, and Swiss franc denominated debt that totaled approximately $41,249.

At December 31, 2021, we had $24,630 of debt maturing within one year, consisting of $6,586 of commercial paper borrowings, $10,100 of credit agreement borrowings, and $7,944 of long-term debt issuances.

During 2021, we paid $4,596 of cash under our vendor financing program, compared to $2,966 in 2020. Total vendor financing payables included in our December 31, 2021 consolidated balance sheet were approximately $5,000, with $3,950 due within one year (in "Accounts payable and accrued liabilities") and the remainder predominantly due within five years (in "Other noncurrent liabilities").

At December 31, 2021, we had approximately 178 million shares remaining from our share repurchase authorizations approved by the Board of Directors in 2014.

We paid dividends on common shares and preferred shares of $15,068 in 2021, compared with $14,956 in 2020.

Dividends on common stock declared by our Board of Directors totaled $2.08 per share in both 2021 and 2020. Our dividend policy considers the expectations and requirements of stockholders, capital funding requirements of AT&T and long-term growth opportunities. On February 1, 2022, we announced that our Board of Directors approved an expected annual dividend level of $1.11 per share, or approximately $8,000 per year, following the close of the WarnerMedia/Discovery transaction.

Our 2022 financing activities will focus on managing our debt level and paying 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, issuance of debt, and asset sales. The timing and mix of any debt issuance and/or refinancing 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 November 2020, we amended one of our $7,500 revolving credit agreements by extending the termination date. In total, we have two $7,500 revolving credit agreements, totaling $15,000, with one terminating on December 11, 2023 and the other terminating on November 17, 2025. No amounts were outstanding under either agreement as of December 31, 2021.

On January 29, 2021, we entered into a $14,700 Term Loan Credit Agreement (2021 Syndicated Term Loan), with Bank of America, N.A., as agent. On March 23, 2021, we borrowed

$7,350 under the 2021 Syndicated Term Loan, and the remaining $7,350 of lenders' commitments was terminated. As of December 31, 2021, $7,350 was outstanding and is due on March 22, 2022.

In March 2021, we entered into and drew on a $2,000 term loan credit agreement (BAML Bilateral Term Loan) consisting of (i) a $1,000 facility originally due December 31, 2021 (BAML Tranche A Facility) and subsequently extended to December 31, 2022 in the fourth quarter of 2021, and (ii) a $1,000 facility due December 31, 2022 (BAML Tranche B Facility), with Bank of America, N.A., as agent. At December 31, 2021, $2,000 was outstanding under these facilities.

We also utilize other external financing sources, which include various credit arrangements supported by government agencies to support network equipment purchases as well as a commercial paper program.

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 through June 30, 2023, a ratio of not more than 4.0-to-1, and a ratio of not more than 3.5-to-1 for any fiscal quarter thereafter. As of December 31, 2021, we were in compliance with the covenants for our credit facilities.

Collateral Arrangements

Most of our counterparty collateral arrangements require cash collateral posting by AT&T only when derivative market values exceed certain thresholds. Under these arrangements, which cover approximately 97% of our approximate $41,000 derivative portfolio, counterparties are still required to post collateral. During 2021, we posted approximately $770 of cash collateral, on a net basis. Cash postings under these arrangements vary with changes in credit ratings and netting agreements. (See Note 13)

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, 2021, our debt ratio was 49.1%, compared to 46.7% at December 31, 2020 and 44.7% at December 31, 2019. Our net debt ratio was 43.2% at December 31, 2021, compared to 43.8% at December 31, 2020 and 41.4% at December 31, 2019. The debt ratio is affected by the same factors that affect total capital, and reflects our recent debt issuances and repayments.

A significant amount of our cash outflows is related to tax items, acquisition of spectrum through FCC auctions and benefits paid for current and former employees:

- Total taxes incurred, collected and remitted by AT&T during 2021 and 2020, were $21,739 and $21,967. These taxes include income, franchise, property, sales, excise, payroll, gross receipts and various other taxes and fees.
- Total domestic spectrum acquired primarily through FCC auctions, including cash, exchanged spectrum and auction deposits was approximately $25,400 in 2021, $2,800 in 2020 and $1,300 in 2019.
- Total health and welfare benefits provided to certain active and retired employees and their dependents totaled $3,617 in 2021 and $3,656 in 2020, with $1,163 paid from plan assets in 2021 compared to $1,029 in 2020. Of those benefits, $3,210 related to medical and prescription drug benefits in 2021 compared to $3,293 in 2020. In addition, in 2021, we prefunded $685 for future benefit payments versus $745 in 2020. We paid $5,942 of pension benefits out of plan assets in 2021 compared to $5,124 in 2020.

On May 17, 2021, we entered into an agreement to combine our WarnerMedia segment with a subsidiary of Discovery. The transaction is anticipated to close in the second quarter of 2022, subject to approval by Discovery shareholders and customary closing conditions, including receipt of regulatory approvals. We expect to receive $43,000 (subject to working capital and other adjustments) in a combination of cash, debt securities, and WarnerMedia's retention of certain debt. (See Note 6)

On May 17, 2021, in anticipation of the separation of WarnerMedia business from us, Spinco entered into a $41,500 commitment letter (Bridge Loan). On June 4, 2021, Spinco entered into a $10,000 term loan credit agreement (Spinco Term Loan) consisting of (i) an 18 month $3,000 tranche (Tranche 1 Facility), and (ii) a 3 year $7,000 tranche (Tranche 2 Facility), with JPMorgan Chase Bank, N.A., as agent. In connection with the execution of the Spinco Term Loan, the aggregate commitment amount under the Bridge Loan was reduced to $31,500. No amounts were outstanding as of December 31, 2021.

Contractual Obligations

Our contractual obligations as of December 31, 2021, and the estimated timing of payment, are in the following table:

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations[1]	$ 181,449	$ 18,185	$ 19,301	$ 17,041	$ 126,922
Interest payments on long-term debt[2]	117,454	6,710	12,624	11,400	86,720
Purchase obligations[3]	77,621	28,860	24,585	11,636	12,540
Operating lease obligations[4]	29,852	4,922	8,472	5,772	10,686
FirstNet sustainability payments[5]	17,400	195	390	1,785	15,030
Unrecognized tax benefits[6]	10,108	268	—	—	9,840
Other finance obligations[7]	12,724	4,635	2,414	1,524	4,151
Note payable to DIRECTV	1,341	1,245	96	—	—
Total Contractual Obligations	$ 447,949	$ 65,020	$ 67,882	$ 49,158	$ 265,889

[1] Represents principal or payoff amounts of notes, debentures and credit agreement borrowings at maturity or, for puttable debt, the next put opportunity (see Note 12). Foreign debt includes the impact from hedges, when applicable.

[2] Includes credit agreement borrowings.

[3] We expect to fund the purchase obligations with cash provided by operations or through incremental borrowings. Consists of commitments primarily related to network programming at WarnerMedia, spectrum acquisitions and other commercial commitments. The minimum commitment for certain obligations is based on termination penalties that could be paid to exit the contracts. (See Note 22)

[4] Represents operating lease payments (see Note 8).

[5] 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 own and operate. FirstNet has a statutory requirement to reinvest funds that exceed the agency's operating expenses, which we anticipate to be $15,000. (See Note 21)

[6] 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 14).

[7] Represents future minimum payments under the Crown Castle and other arrangements (see Note 19), payables subject to extended payment terms (see Note 23) and finance lease payments (see Note 8).

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, we believe the obligations are immaterial or because the settlement of the obligation will not require the use of cash. These items include: deferred income tax liability of $65,226 (see Note 14); net postemployment benefit obligations of $13,927 (including current portion); and other noncurrent liabilities of $13,409.

Contractual obligations at December 31, 2021 include approximately $36,912 of commitments related to our WarnerMedia segment, which we have entered into an agreement to combine with Discovery (see Note 6).

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. In recent years, the discount rates have been increasingly volatile, and on average have been lower than in historical periods. Lower discount rates used to measure our pension and postretirement plans result in higher obligations. Future increases in these rates could result in lower obligations, improved funded status and actuarial gains.

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 12 and 13. In managing interest expense, we control our mix of fixed and floating rate debt through term loans, floating rate notes, and 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.

We had no interest rate swaps and no interest rate locks at December 31, 2021.

Foreign Exchange Risk

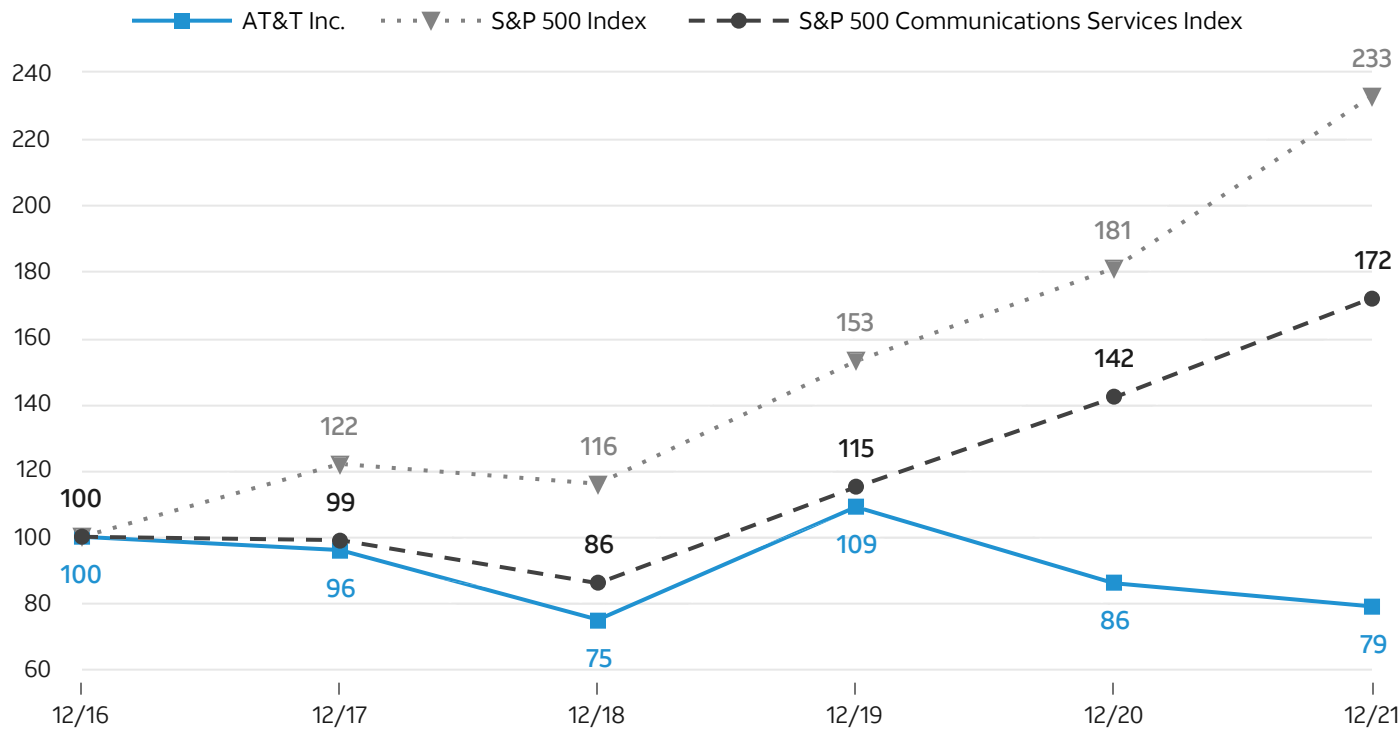
We principally use foreign exchange contracts to hedge certain film production costs denominated in foreign currencies. We are also exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. We have designated €1,450 million aggregate principal amount of debt as a hedge of the variability of certain Euro-denominated net investments of our subsidiaries. The gain or loss on the debt that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation is recorded as a currency translation adjustment within accumulated other comprehensive income, net on the consolidated balance sheet.

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. We had cross-currency swaps with a notional value of $40,737 and a fair value of $(2,959) outstanding at December 31, 2021.

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. We had foreign exchange forward contracts with a notional value of $30 and a fair value of $(33) outstanding at December 31, 2021.

STOCK PERFORMANCE GRAPH

Comparison of Five Year Cumulative Return
AT&T Inc., S&P 500 Index and S&P 500 Communications Services Index



The comparison above assumes $100 invested on December 31, 2016, in AT&T common stock and the following Standard & Poor's (S&P) Indices: S&P 500 Index and S&P 500 Communications Services Index. Total return equals stock price appreciation plus reinvestment of dividends.

RISK FACTORS

In addition to the other information set forth in this document, including the matters contained under the caption "Cautionary Language Concerning Forward-Looking Statements," you should carefully read the matters described below. We believe that each of these matters could materially affect our business. We recognize that most of these factors are beyond our ability to control and therefore we cannot predict an outcome.

Macro-economic Factors:

Adverse changes in the U.S. securities markets, interest rates and medical costs could materially increase our benefit plan costs and future funding requirements.

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 assets held by our pension and other benefit plans, which are reflected in our financial statements for that year. In calculating the recognized benefit costs, we have made certain assumptions regarding future investment returns, interest rates and medical costs. These assumptions could change significantly over time and could be materially different than originally projected. Lower than assumed investment returns, a decline in interest rates with a corresponding increase in our benefit obligations, and higher than assumed medical and prescription drug costs will increase expenses.

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 their 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.

Significant adverse changes in capital markets could result in the deterioration of our defined benefit plans' funded status and result in increased contribution requirements for such plans, which could be material.

Inflationary pressures on costs, such as inputs for devices we sell and network components, labor and distribution costs may impact our network construction, our financial condition or results of operations.

As a provider of telecommunications and technology services, we sell handsets, wireless data cards, wireless computing devices and customer premises equipment manufactured by various suppliers for use with our voice and data services and depend on suppliers to provide us, directly or through other suppliers, with items such as network equipment, customer premises equipment, and wireless-related equipment such as mobile hotspots, handsets, wirelessly enabled computers, wireless data cards and other connected devices for our customers. In 2021 and the early part of 2022, the costs of these inputs and the costs of labor necessary to develop and maintain our networks and our products and services have rapidly increased. In addition, many of these inputs are subject to price fluctuations from a number of factors, including, but not limited to, market conditions, demand for raw materials used in the production of these devices and network components, weather, climate change, energy costs, currency fluctuations, supplier capacities, governmental actions, import and export requirements (including tariffs), and other factors beyond our control. Although we are unable to predict the impact on our ability to source materials in the future, we expect these supply pressures to continue into 2022. We also expect the pressures of input cost inflation to continue into 2022.

Our attempts to offset these cost pressures, such as through increases in the selling prices of some of our products and services, may not be successful. Higher product prices may result in reductions in sales volume. Consumers may be less willing to pay a price differential for our products and may increasingly purchase lower-priced offerings, or may forego some purchases altogether, during an economic downturn. To the extent that price increases are not sufficient to offset these increased costs adequately or in a timely manner, and/or if they result in significant decreases in sales volume, our business, financial condition or operating results may be adversely affected. Furthermore, we may not be able to offset any cost increases through productivity and cost-saving initiatives.

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.

During 2021, uncertainty surrounding global growth rates and the impact of the COVID-19 pandemic continued to produce volatility in the credit, currency and equity markets. Volatility may affect companies' access to the credit markets, leading to higher borrowing costs, or, in some cases, the inability to fund 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 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.

The U.K. Financial Conduct Authority, which regulates LIBOR, has announced that it intends to phase out LIBOR in 2023. Although our securities may provide for

alternative methods of calculating the interest rate payable on such indebtedness, uncertainty as to the extent and manner of future changes may adversely affect the current trading market for LIBOR-based securities and the value of variable rate indebtedness in general. 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 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. Additionally, downgrades of our credit rating by the major credit rating agencies could increase our cost of borrowing and also impact the collateral we would be required to post under certain agreements we have entered into with our derivative counterparties, which could negatively impact our liquidity. Further, valuation changes in our derivative portfolio due to interest rates and foreign exchange rates could require us to post collateral and thus may negatively impact our liquidity.

Our international operations have increased our exposure to political instability, to changes in the international economy and to the level of regulation on our business and these risks could offset our expected growth opportunities.

We have international operations, including in Mexico, and worldwide through WarnerMedia's content distribution. We need to comply with a wide variety of complex local laws, regulations and treaties. We are 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 tariffs, differences in intellectual property protection laws, 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 our foreign operations represent significant opportunities to sell our services, a number of foreign countries where we operate have experienced unstable growth patterns, increased inflation, currency devaluation, foreign exchange controls, instability in the banking sector and high unemployment. Should these conditions persist, our ability to offer service in one or more countries could be adversely affected and 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, deploy networks or execute on other capital projects. Involvement with foreign firms exposes us to the risk of being unable to control the actions of those firms and therefore exposes us to risks associated with our obligation to comply with the Foreign Corrupt Practices Act (FCPA). Violations of the FCPA could have a material adverse effect on our operating results.

Industry-wide Factors:

Our business is subject to risks arising from the outbreak of the COVID-19 virus.

The COVID-19 pandemic and resulting mitigation measures have caused, and may continue to cause, a negative effect on our operating results. At the onset in 2020, mitigation measures caused sports leagues to modify their seasons and suspend certain operations, which adversely affected our advertising revenues and, resulted in contract disputes concerning carriage rights that caused us to incur expenses relating to certain of these sporting events notwithstanding their cancellation. The closure or avoidance of theaters, and the interruptions in movie production and other programming caused by COVID-19 are expected to continue to impact the timing of revenues and may cause a loss of revenue to our WarnerMedia business over the long term. The COVID-19 pandemic also drove higher costs for our WarnerMedia business in 2021 based on the hybrid distribution model for releasing films in 2021 and costs associated with safety measures put in place to help provide a safe environment for content production. If the mitigation measures or the associated effects are prolonged, we expect business customers in industries most significantly impacted will continue to reduce or terminate services, having a negative effect on the performance of our Business Wireline business unit. Further, concerns over the COVID-19 pandemic could again result in the closure of many of our retail stores, temporarily or permanently, and deter customers from accessing our stores even as the pandemic subsides. These pandemic concerns may also result in continued impact to our customers' ability to pay for our products and services. We may also continue to see significant impact on roaming revenues due to a downturn in international travel. The COVID-19 pandemic has caused and could further cause reduced staffing levels at our call centers and field operations, resulting in delays in service. Further reductions in staffing levels could additionally limit our ability to provide services, adversely impacting our competitive position. We may also incur significantly higher expenses attributable to infrastructure investments required to meet higher network utilization from more customers consuming bandwidth from changes in work from home trends; extended cancellation periods; and increased labor costs if the COVID-19 pandemic continues for an extended period.

The COVID-19 pandemic and mitigation measures have caused, and may continue to cause, adverse impacts on global economic conditions and consumer confidence, spending and consumer behavior, which could affect demand for our products and services. The extent to which the COVID-19 pandemic impacts our business, results of operations, cash flows and financial condition

will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning other strains of the virus and the actions to contain its impact. Due to the speed with which the situation continues to develop and change, we are not able at this time to estimate the additional impact of COVID-19 on our financial or operational results, but the impact could be material.

Changes to federal, state and foreign government regulations and decisions in regulatory proceedings, as well as private litigation, 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 various video subsidiaries are regulated to varying degrees by the FCC and in some instances, by state and local agencies. Adverse regulations and rulings by the FCC relating to broadband and wireless deployment could impede our ability to manage our networks and recover costs and lessen incentives to invest in our networks. The continuing growth of IP-based services, especially when accessed by wireless devices, 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, in response to the FAA questioning whether our 5G C-band launch could impact radio altimeter equipment on airplanes, we voluntarily committed to a series of temporary, precautionary measures, in addition to deferring turning on a limited number of towers around certain airports to allow the FAA more time to evaluate. The FAA's continued evaluation may impact our planned 5G C-band launch in certain areas. 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 concerns about global climate changes, have led to proposals or new legislation at state, federal and foreign government levels to change or increase regulation on our operations. Enactment of new privacy laws and regulations could, among other things, adversely affect our ability to collect and offer targeted advertisements or result in additional costs of compliance or litigation. Should customers decide that our competitors offer a more customer-friendly environment, our competitive position, results of operations or financial condition could be materially adversely affected.

Effects of climate change may impose risk of damage to our infrastructure, our ability to provide services, and may cause changes in federal, state and foreign government regulation, all of which may result in potential adverse impact to our financial results.

Extreme weather events precipitated by long-term climate change have the potential to directly damage network facilities or disrupt our ability to build and maintain portions of our network and could potentially disrupt suppliers' ability to provide products and services required to provide reliable network coverage. Any such disruption could delay network deployment plans, interrupt service for our customers, increase our costs and have a negative effect on our operating results. The potential physical effects of climate change, such as increased frequency and severity of storms, floods, fires, freezing conditions, sea-level rise, and other climate-related events, could adversely affect our operations, infrastructure, and financial results. Operational impacts resulting from the potential physical effects of climate change, such as damage to our network infrastructure, could result in increased costs and loss of revenue. We could incur significant costs to improve the climate resiliency of our infrastructure and otherwise prepare for, respond to, and mitigate such physical effects of climate change. We are not able to accurately predict the materiality of any potential losses or costs associated with the physical effects of climate change.

Further, customers, consumers, investors and other stakeholders are increasingly focusing on environmental issues, including climate change, water use, deforestation, plastic waste, and other sustainability concerns. Concern over climate change or other environmental, social and governance (ESG) matters may result in new or increased legal and regulatory requirements to reduce or mitigate impacts to the environment and reduce the impact of our business on climate change. Further, climate change regulations may require us to alter our proposed business plans or increase our operating costs due to increased regulation or environmental considerations, and could adversely affect our business and reputation.

Continuing growth in and the converging nature of wireless and broadband services will require us to deploy significant amounts of capital and require ongoing access to spectrum in order to provide attractive services to customers.

Wireless 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 data, including video, across mobile and fixed devices. The COVID-19 pandemic has accelerated these changes and also resulted in higher network utilization, as more customers consume bandwidth from changes in work from home trends. We must continually invest in our networks in order to improve our wireless and broadband services to meet this increasing demand and changes in customer expectations, while remaining 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 data, including video, and voice between cell and fixed landline sites. To this end, we participate in spectrum auctions and continue to deploy software and other technology advancements in order to efficiently invest in 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, software issues, increases in network 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 with acceptable quality and at reasonable costs, 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. 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. Our share of industry sales could be reduced due to aggressive pricing strategies pursued by competitors. We also expect that our customers' growing demand for high-speed video and data services will place constraints on our network capacity. These competition and capacity constraints will continue to put pressure on pricing and margins as companies compete for potential customers. Our ability to respond will depend, among other things, on continued improvement in network quality and customer service and our ability to price our products and services competitively 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.

Intellectual property rights may be adversely affected by piracy or be inadequate to take advantage of business opportunities, such as new distribution platforms, which may materially adversely affect our operations.

Increased piracy of video content, products and other intellectual property, particularly in our foreign WarnerMedia operations, will decrease revenues. Technological developments have made it easier to reproduce and distribute high-quality unauthorized copies of content. Piracy is particularly prevalent in countries that lack effective copyright and other legal protections or enforcement measures and thieves can attract users throughout the world. Effective intellectual property protection may not be available in every country where we operate. We may need to spend significant amounts of money to protect our rights. We are also increasingly negotiating broader licensing agreements to expand our ability to use new methods to distribute content to customers. Any impairment of our intellectual property rights, including due to changes in U.S. or foreign intellectual property laws or the absence of effective legal protections or enforcement measures, or our inability to negotiate broader distribution rights, could materially adversely impact our operations.

Incidents leading to damage to our reputation, and any resulting lawsuits, claims or other legal proceedings, could have a material adverse effect on our business.

We believe that our brand image, awareness and reputation strengthen our relationship with consumers and contribute significantly to the success of our business. We strive to create a culture in which our colleagues act with integrity and respect and feel comfortable speaking up to report instances of misconduct or other concerns. Our ability to attract and retain employees is highly dependent upon our commitment to a diverse and inclusive workplace, ethical business practices and other qualities. Acts of misconduct by any employee, and particularly by senior management, could erode trust and confidence and damage our reputation. Negative public opinion could result from actual or alleged conduct by us or those currently or formerly associated with us, and from any number of activities or circumstances, including operations, employment-related offenses (such as sexual harassment and discrimination), regulatory compliance and actions taken by regulators or others in response to such conduct. We have in the past been, and may in the future be, named as a defendant in lawsuits, claims and other legal proceedings that arise in the ordinary course of our business based on alleged acts of misconduct by employees. These actions seek, among other things, compensation for alleged personal injury (including claims for loss of life), workers' compensation, employment discrimination, sexual harassment, workplace misconduct, wage and hour claims and other employment-related damages, compensation for breach of contract, statutory or regulatory claims, negligence or gross negligence, punitive damages, consequential damages, and civil

penalties or other losses or injunctive or declaratory relief. The outcome of any allegations, lawsuits, claims or legal proceedings is inherently uncertain and could result in significant costs, damage to our brands or reputation and diversion of management's attention from our business. Additionally, our news organization makes editorial judgments around what is covered and how it is covered in the normal course of business. Although we have disciplined practices that are used to make such editorial judgments, it is possible that our news coverage alienates some consumers, adversely impacts our reputation and therefore impacts demand for our other products and services. Any damage to our reputation or payments of significant amounts, even if reserved, could materially and adversely affect our business, reputation, financial condition, results of operations and cash flows.

Company-Specific Financial Factors:

Adoption of new software-based technologies may involve quality and supply chain issues and could increase capital costs.

The communications and digital entertainment industry has experienced rapid changes in the past several years. An increasing number of our customers are using mobile devices as the primary means of viewing video and an increasing number of nontraditional video providers are developing content and technologies to satisfy the desire for video entertainment demand. In addition, businesses and government bodies are broadly shifting to wireless-based services for homes and infrastructure to improve services to their respective customers and constituencies. We have spent, and continue to spend, significant capital to shift our wired network to software-based technology to manage this demand and are expanding 5G wireless technology to address these consumer demands. We are entering into a significant number of software licensing agreements and working with software developers to provide network functions in lieu of installing switches or other physical network equipment in order to respond to rapid developments in video and wireless demand. While software-based functionality can be changed much more quickly than, for example, physical switches, the rapid pace of development means that we may increasingly need to rely on single-source and software solutions that have not previously been deployed in production environments. Should this software not function as intended or our license agreements provide inadequate protection from intellectual property infringement claims, we could be forced to either substitute (if available) or else spend time to develop alternative technologies at a much higher cost and incur harm to our reputation for reliability, and, as a result, our ability to remain competitive could be materially adversely affected.

We depend on various suppliers to provide equipment to operate our business and satisfy customer demand and interruption or delay in supply can adversely impact our operating results.

We depend on suppliers to provide us, directly or through other suppliers, with items such as network equipment, customer premises equipment, and wireless-related equipment such as mobile hotspots, handsets, wirelessly enabled computers, wireless data cards and other connected devices for our customers. These suppliers could fail to provide equipment on a timely basis, or fail to meet our performance expectations, for a number of reasons, including difficulties in obtaining export licenses for certain technologies, inability to secure component parts, general business disruption, natural disasters, safety issues, economic and political instability and public health emergencies such as the COVID-19 pandemic. The COVID-19 pandemic has caused, and may again cause, delays in the development, manufacturing (including the sourcing of key components) and shipment of products. In certain limited circumstances, suppliers have been unable to supply products in a timely fashion. In such limited circumstances, we have been unable to provide products and services precisely as and when requested by our customers. It is possible that, in some circumstances, we could be forced to switch to a different key supplier. Because of the cost and time lag that can be associated with transitioning from one supplier to another, our business could be substantially disrupted if we were required to, or chose to, replace the products of one or more key suppliers with products from another source, especially if the replacement became necessary on short notice. Any such disruption could increase our costs, decrease our operating efficiencies and have a negative effect on our operating results.

Increasing costs to provide services and failure to renew agreements on favorable terms or at all, 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.

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. These competitors generally can focus on discrete customer segments since they do not have regulatory obligations to provide universal service. Also, these competitors have cost advantages compared to us, due in part to operating on newer, more technically advanced and lower-cost networks with a nonunionized workforce, lower employee benefits and fewer retirees. We are transitioning services from our old copper-based network and seeking regulatory approvals, where needed, at both the state and federal levels. 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.

Our WarnerMedia operations, which create and license content to other providers, may experience increasing difficulties securing favorable terms, including those related to pricing, positioning and packaging, during contract negotiations, which may lead to blackouts of WarnerMedia programming, and WarnerMedia may face greater difficulty in achieving placement of its networks and premium pay television services in offerings by third parties.

We may not realize or sustain the expected benefits from our business transformation initiatives, and these efforts could have a materially adverse effect on our business, operations, financial condition, results of operations and competitive position.

We have been and will be undertaking certain transformation initiatives, which are designed to reduce costs, streamline and modernize distribution and customer service, remove redundancies and simplify and improve processes and support functions. Our focus is on supporting added customer value with an improved customer experience. We intend for these efficiencies to enable increased investments in our strategic areas of focus, which consist of improving broadband connectivity (for example, fiber and 5G), developing software-based entertainment (such as HBO Max) and utilizing WarnerMedia's storytelling legacy to engage consumers and gain insights across multiple distribution points. We also expect these initiatives to drive efficiencies and improved margins. If we do not successfully manage and execute these initiatives, or if they are inadequate or ineffective, we may fail to meet our financial goals and achieve anticipated benefits, improvements may be delayed, not sustained or not realized, and our business, operations and competitive position could be adversely affected.

If our efforts to attract and retain subscribers to our HBO Max platform and to develop compelling choices are not successful, our business will be adversely affected.

HBO Max's future success is subject to inherent uncertainty. Our ability to continue to attract subscribers to the HBO Max platform will depend in part on our ability to consistently provide subscribers with compelling content choices, as well as a quality experience for selecting and viewing those content choices. Furthermore, the relative service levels, content offerings, promotions, and pricing and related features of competitors to HBO Max may adversely impact our ability to attract and retain subscribers. If consumers do not perceive our offerings to be of value, including if we introduce new or adjust existing features, adjust pricing or offerings, terminate or modify promotional or trial period offerings, experience technical issues, or change the mix of content in a manner that is not favorably received by them, we may not be able to attract and retain subscribers. In addition, many subscribers to these types of offerings originate from word-of-mouth advertising from then existing subscribers. If our efforts to satisfy subscribers are not successful, including because we terminate or modify promotional or trial-period offerings or because of technical issues with the platform, we may not be able to attract or retain subscribers, and as a result, our ability to maintain and/or grow our business will be adversely affected.

If subscribers cancel or decide to not continue subscriptions for any reason, including a perception that they do not use it sufficiently, the need to cut household expenses, unsatisfactory availability of content, promotions or trial-period offers expire or are modified, competitive services or promotions provide a better value or experience, and customer service or technical issues are not satisfactorily resolved, our business will be adversely affected. We must continually add new subscribers both to replace canceled subscribers and to grow our business. If we do not grow as expected, given, in particular, that a significant portion of our content costs are committed and contracted over several years based on minimum subscriber delivery levels, we may not be able to adjust our expenditures or increase our (per subscriber) revenues commensurate with the lowered growth rate such that our margins, liquidity and results of operations may be adversely impacted. If we are unable to successfully compete with competitors in retaining and attracting new subscribers, our business will be adversely affected. Further, if excessive numbers of subscribers do cancel, we may be required to incur significantly higher marketing expenditures or offer significantly more generous promotions to replace these subscribers with new subscribers.

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.

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

Cyberattacks, major equipment failures or natural disasters, such as flooding, hurricanes and forest fires,

whether caused by discrete severe weather events and/or precipitated by long-term climate change and earthquakes, software problems, data and privacy breaches, terrorist acts or other breaches of network or IT security that affect our 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 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 incidents or cyberattacks, 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 inability to deploy or operate our networks or customer support systems or protect sensitive personal information of customers or employees or valuable technical and marketing information 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.

Increases in our debt levels to fund 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 incurred debt to fund significant 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. Additionally, our capital allocation plan is focused on, among other things, managing our debt level going forward. Any failure to successfully execute this plan could adversely affect our cost of funds, liquidity, competitive position and access to capital markets.

Our business may be impacted by changes in tax laws and regulations, judicial interpretations of same or administrative actions by federal, state, local and foreign taxing authorities.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. In many cases, the application of existing, newly enacted or amended tax laws (such as the U.S. Tax Cuts and Jobs Act of 2017) may be uncertain and subject to differing interpretations, especially when evaluated against ever changing products and services provided by our global telecommunications, media, and technology businesses. In addition, tax legislation has been introduced or is being considered in various jurisdictions that could significantly impact our tax rate, tax liabilities, and carrying value of deferred tax assets or deferred tax liabilities. Any of these changes could materially impact our financial performance and our tax provision, net income and cash flows.

We are also subject to ongoing examinations by taxing authorities in various jurisdictions. Although we regularly assess the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of provisions for taxes, there can be no assurance as to the outcome of these examinations. In the event that we have not accurately or fully described, disclosed or determined, calculated or remitted amounts that were due to taxing authorities or if the ultimate determination of our taxes owed is for an amount in excess of amounts previously accrued, we could be subject to additional taxes, penalties and interest, which could materially impact our business, financial condition and operating results.

The proposed separation and combination of our WarnerMedia business with Discovery may not be completed on the currently contemplated timeline or at all.

On May 17, 2021, we announced a definitive agreement with Discovery, Inc. (Discovery) to combine our WarnerMedia business with Discovery (the "WarnerMedia/Discovery Transaction"), which, if consummated, would result in our stockholders owning 71% of the combined company's Discovery's outstanding common stock on a fully diluted basis (computed using the treasury stock method). The WarnerMedia/Discovery Transaction is expected to close in the second quarter of 2022, subject to certain customary closing conditions including, among others, the approval of Discovery's stockholders, the receipt of certain regulatory approvals and the finalization of a private letter ruling from the Internal Revenue Service (IRS) to the effect that the separation of the WarnerMedia business and certain related transactions will qualify for tax-free treatment under the Internal Revenue Code (the "Private Letter Ruling").

There can be no assurance that such closing conditions will be satisfied or waived, or that the WarnerMedia/Discovery Transaction will be consummated. Required regulatory approvals may not be received in a timely manner or at all. Further, while we have entered into voting agreements with certain stockholders of Discovery representing, in the aggregate, approximately 43% of the voting power of the issued and outstanding shares of Discovery capital stock as of May 14, 2021, pursuant to which they have agreed to vote in favor of certain aspects of the WarnerMedia/Discovery Transaction, we cannot

assure you that the approval of Discovery's stockholders will be obtained. We and Discovery may be subject to shareholder lawsuits, or other actions filed in connection with or in opposition to the WarnerMedia/Discovery Transaction, which could prevent or delay the consummation of the WarnerMedia/Discovery Transaction.

If the distribution of WarnerMedia, together with certain related transactions, were to fail to qualify for non-recognition treatment for U.S. federal income tax purposes, then we could be subject to significant tax liability.

Under the Merger Agreement, receipt of the Private Letter Ruling from the IRS is a condition to close the WarnerMedia/Discovery Transaction. On December 28, 2021, AT&T received a favorable Private Letter Ruling from the IRS. As long as the Private Letter Ruling continues to be in full force and effect until closing, AT&T expects that the receipt of the Private Letter Ruling satisfies the closing condition for an IRS ruling. While not anticipated, situations where a Private Letter Ruling could cease to be in full force and effect may include situations where there is a material change in applicable tax law, or a material change to the terms or structure of the transaction. Reliance on the ruling is also subject to certain facts, representations and undertakings made in connection with the request for the ruling.

Accordingly, the IRS or another applicable tax authority could determine on audit that the distribution by us of WarnerMedia to our stockholders and certain related transactions should be treated as taxable transactions if it determines that any of these facts, representations or undertakings are incorrect or have been violated. We may be entitled to indemnification from Discovery in the case of certain breaches of representations or undertakings by Discovery under the tax matters agreement related to the WarnerMedia/Discovery Transaction. However, we could potentially be required to pay such tax prior to reimbursement from Discovery, and such indemnification is subject to Discovery's credit risk. If the IRS or another tax authority were to so conclude, there could be a material adverse impact on our business, financial condition, results of operations and cash flows.

In addition, in the event that we are unable to effectuate a Spinco Debt Exchange, we could incur significant incremental tax liability associated with the WarnerMedia/Discovery Transaction. If certain conditions are met, Discovery generally will be responsible for 50% of such incremental tax liability that does not exceed $4,000. For more information regarding the Spinco Debt Exchange, refer to the risk factor titled "Even if the WarnerMedia/Discovery Transaction is completed, we may not realize some or all of the expected benefits of the transaction" below.

The announcement and pendency of the WarnerMedia/Discovery Transaction could cause disruptions in our business.

The WarnerMedia/Discovery Transaction will require significant amounts of time and effort, which could divert management's attention from operating, growing our business and other strategic endeavors. Further, our employees may be distracted due to uncertainty regarding their future roles with us or the WarnerMedia business pending the consummation of the WarnerMedia/Discovery Transaction. In the event that the WarnerMedia/Discovery Transaction does not close, we will be required to bear a number of non-recurring costs in connection with the transaction, including financial, legal, accounting, consulting and other advisory fees and expenses, reorganization and restructuring costs, severance/employee benefit-related expenses, regulatory and SEC filing fees and expenses, printing expenses and other related charges. Until the consummation or termination of the WarnerMedia/Discovery Transaction, we are also required to operate the WarnerMedia business in the ordinary course and we are restricted from taking certain specified actions with respect to our WarnerMedia business without Discovery's consent. Any of the foregoing could adversely affect our operating results.

Even if the WarnerMedia/Discovery Transaction is completed, we may not realize some or all of the expected benefits of the transaction.

Even if the WarnerMedia/Discovery Transaction is completed, the anticipated operational, financial, strategic and other benefits of such transaction to the Company and our stockholders may not be achieved. There are many factors that could impact the anticipated benefits from the WarnerMedia/Discovery Transaction, including, among others, strategic adjustments required to reflect the nature of our business following the WarnerMedia/Discovery Transaction and any negative reaction to the WarnerMedia/Discovery Transaction by our customers and business partners. In addition, we have agreed to provide certain transition services to the combined company, which may result in additional expenses and may divert our focus and resources that would otherwise be invested into maintaining or growing our businesses.

In connection with the WarnerMedia/Discovery Transaction, we will receive approximately $43,000, subject to certain adjustments, in the form of a combination of (i) the assumption by the WarnerMedia business of certain existing debt, (ii) a cash dividend distributed to us from the WarnerMedia business (the "Spinco Special Cash Payment"), and (iii) debt instruments of the WarnerMedia business (the "Spinco Debt Distribution"). We expect to deliver such debt instruments of WarnerMedia in exchange for certain of our outstanding debt obligations (the "Spinco Debt Exchange"), and to use the proceeds of the Spinco Special Cash Payment to repay certain of our other outstanding

debt obligations. This process will be complex and may require significant time and resources. Depending on various variables (such as interest rates and timing) at the time of the Spinco Debt Exchange, AT&T's transaction costs relating to the Spinco Debt Exchange may be significantly higher than expected. Additionally, if market conditions change in advance of the Spinco Debt Exchange such that it is no longer feasible for the WarnerMedia business to issue debt securities with a fair market value at least equal to their face value, we may be required to take an additional distribution of cash from the WarnerMedia business in lieu of effecting the Spinco Debt Exchange, which could result in potentially significant incremental tax liability. If certain conditions are met, Discovery generally will be responsible for 50% of such incremental tax liability that does not exceed $4,000.

An inability to realize the full extent of the anticipated benefits of the WarnerMedia/Discovery Transaction, as well as any delays encountered in the process, could have an adverse effect on our revenues, level of expenses and operating results.

In connection with the separation of the WarnerMedia business and the completed transaction involving our Video business unit, certain liabilities will be or were allocated to or retained by us and we will be subject to indemnification obligations in respect of those liabilities.

In connection with the separation of the WarnerMedia business and the completed transaction involving our Video business unit (the "DTV Transaction"), we have agreed to assume or retain, and indemnify the WarnerMedia business and the Video business unit for, certain liabilities. Payments pursuant to these indemnities may be significant and could negatively impact our business, particularly indemnities relating to our actions that could impact the tax-free nature of the distribution of the WarnerMedia business. Third parties could also seek to hold us responsible for any liabilities allocated to the WarnerMedia business and the Video business unit and such third parties could seek damages, other monetary penalties (whether civil or criminal) and other remedies.

The separation of the WarnerMedia business and the Video business unit may result in an increase in our costs and expenses.

Following the consummation of the WarnerMedia/Discovery Transaction and the DTV Transaction, we will no longer benefit from economies of scale and synergies we currently have or expected to realize between our WarnerMedia business, our Video business unit and our remaining businesses, including through intercompany arrangements and combined agreements with third parties. There can be no assurance that we will be able to continue any of these arrangements, or that any such continuing arrangements will be on the same or more favorable terms, following the separation of the WarnerMedia business and the Video business unit. Additionally, there can be no assurance that costs retained by AT&T after the WarnerMedia/Discovery Transaction and the DTV Transaction will be fully recovered through transition service agreements or business transformation initiatives. As a result, our costs and expenses may increase following the consummation of the WarnerMedia/Discovery Transaction and the DTV Transaction.

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:

- The severity, magnitude and duration of the COVID-19 pandemic and containment, mitigation and other measures taken in response, including the potential impacts of these matters on our business and operations.
- Our inability to predict the extent to which the COVID-19 pandemic and related impacts will continue to impact our business operations, financial performance and results of operations.
- Adverse economic, political and/or capital access changes in the markets served by us or in countries in which we have significant investments and/or operations, including the impact on customer demand and our ability and our suppliers' ability to access financial markets at favorable rates and terms.
- 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) and legislative efforts involving issues that are important to our business, including, without limitation, 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 and, in particular, siting for 5G service; E911 services; competition policy; privacy; net neutrality; multichannel video programming distributor services and equipment; content licensing and copyright protection; availability of new spectrum on fair and balanced terms; and wireless and satellite license awards and renewals.
- 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.
- Potential changes to the electromagnetic spectrum currently used for broadcast television and satellite distribution being considered by the FCC could negatively impact WarnerMedia's ability to deliver linear network feeds of its domestic cable networks to its affiliates, and in some cases, WarnerMedia's ability to produce high-value news and entertainment programming on location.
- U.S. and foreign laws and regulations regarding intellectual property rights protection and privacy, personal data protection and user consent are complex and rapidly evolving and could result in adverse impacts to our business plans, increased costs, or claims against us that may harm our reputation.
- 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 non-regulation of comparable alternative technologies and/or government-owned or subsidized networks.
- Disruption in our supply chain for a number of reasons, including, difficulties in obtaining export licenses for certain technology, inability to secure component parts, general business disruption, workforce shortage, natural disasters, safety issues, economic and political instability and public health emergencies.
- The continued development and delivery of attractive and profitable wireless, video content and broadband offerings and devices, and, in particular, the success of our HBO Max platform; 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 ability to generate subscription and advertising revenue from attractive video content, especially from WarnerMedia, in the face of unpredictable and rapidly evolving public viewing habits and legal restrictions on using personal data for advertising.
- The availability and cost and our ability to adequately fund additional wireless spectrum and network upgrades; and regulations and conditions relating to spectrum use, licensing, obtaining additional spectrum, technical standards and deployment and usage, including network management rules.
- Our ability to manage growth in wireless data services, including network quality and acquisition of adequate spectrum at reasonable costs and terms.
- The outcome of pending, threatened or potential litigation (which includes arbitrations), including, without limitation, patent and product safety claims by or against third parties or claims based on alleged misconduct by employees.
- The impact from major equipment or software failures on our networks; 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; or severe weather conditions including flooding and hurricanes, natural disasters including earthquakes and forest fires, 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.
- Changes in our corporate strategies to respond to competition and regulatory, legislative and technological developments.
- The uncertainty surrounding further congressional action regarding spending and taxation, which may result in changes in government spending and affect the ability and willingness of businesses and consumers to spend in general.
- Our ability to realize or sustain the expected benefits of our business transformation initiatives, which are designed to reduce costs, streamline distribution, remove redundancies and simplify and improve processes and support functions.
- Our ability to successfully complete divestitures, including the separation of the WarnerMedia business, as well as achieve our expectations regarding the financial impact of the completed and/or pending transactions.

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

Consolidated Statements of Income
Dollars in millions except per share amounts

	2021	2020	2019
Operating Revenues			
Service	**$ 146,391**	$ 152,767	$ 163,499
Equipment	**22,473**	18,993	17,694
Total operating revenues	**168,864**	171,760	181,193
Operating Expenses			
Cost of revenues			
Equipment	**23,778**	19,706	18,653
Broadcast, programming and operations	**24,797**	27,305	31,132
Other cost of revenues (exclusive of depreciation and amortization shown separately below)	**31,232**	32,909	34,356
Selling, general and administrative	**37,944**	38,039	39,422
Asset impairments and abandonments	**4,904**	18,880	1,458
Depreciation and amortization	**22,862**	28,516	28,217
Total operating expenses	**145,517**	165,355	153,238
Operating Income	**23,347**	6,405	27,955
Other Income (Expense)			
Interest expense	**(6,884)**	(7,925)	(8,422)
Equity in net income of affiliates	**631**	95	6
Other income (expense) – net	**9,853**	(1,431)	(1,071)
Total other income (expense)	**3,600**	(9,261)	(9,487)
Income (Loss) Before Income Taxes	**26,947**	(2,856)	18,468
Income tax expense	**5,468**	965	3,493
Net Income (Loss)	**21,479**	(3,821)	14,975
Less: Net Income Attributable to Noncontrolling Interest	**(1,398)**	(1,355)	(1,072)
Net Income (Loss) Attributable to AT&T	**$ 20,081**	$ (5,176)	$ 13,903
Less: Preferred Stock Dividends	**(207)**	(193)	(3)
Net Income (Loss) Attributable to Common Stock	**$ 19,874**	$ (5,369)	$ 13,900
Basic Earnings Per Share Attributable to Common Stock	**$ 2.77**	$ (0.75)	$ 1.90
Diluted Earnings Per Share Attributable to Common Stock	**$ 2.76**	$ (0.75)	$ 1.89

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

Consolidated Statements of Comprehensive Income
Dollars in millions except per share amounts

	2021	2020	2019
Net income (loss)	**$ 21,479**	$ (3,821)	$ 14,975
Other comprehensive income (loss), net of tax:			
Foreign Currency:			
Translation adjustment (includes $(2), $(59) and $(9) attributable to noncontrolling interest), net of taxes of $(44), $(42) and $18	**(127)**	(929)	19
Reclassification adjustment included in net income (loss), net of taxes of $204, $0 and $0	**2,087**	—	—
Securities:			
Net unrealized gains (losses), net of taxes of $(21), $27 and $17	**(63)**	78	50
Reclassification adjustment included in net income (loss), net of taxes of $(1), $(5) and $0	**(3)**	(15)	—
Derivative Instruments:			
Net unrealized gains (losses), net of taxes of $(192), $(212) and $(240)	**(715)**	(811)	(900)
Reclassification adjustment included in net income (loss), net of taxes of $19, $18 and $12	**72**	69	45
Defined benefit postretirement plans:			
Net prior service (cost) credit arising during period, net of taxes of $(8), $735 and $1,134	**(34)**	2,250	3,457
Amortization of net prior service credit included in net income (loss), net of taxes of $(660), $(601) and $(475)	**(2,020)**	(1,841)	(1,459)
Other comprehensive income (loss)	**(803)**	(1,199)	1,212
Total comprehensive income (loss)	**20,676**	(5,020)	16,187
Less: Total comprehensive income attributable to noncontrolling interest	**(1,396)**	(1,296)	(1,063)
Total Comprehensive Income (Loss) Attributable to AT&T	**$ 19,280**	$ (6,316)	$ 15,124

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

Consolidated Balance Sheets
Dollars in millions except per share amounts

	December 31,	
	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	**$ 21,169**	$ 9,740
Accounts receivable – net of related allowance for credit loss of $771 and $1,221	**17,571**	20,215
Inventories	**3,464**	3,695
Prepaid and other current assets	**17,793**	18,358
Total current assets	**59,997**	52,008
Noncurrent Inventories and Theatrical Film and Television Production Costs	**18,983**	14,752
Property, Plant and Equipment – Net	**125,904**	127,315
Goodwill	**133,223**	135,259
Licenses – Net	**113,830**	93,840
Trademarks and Trade Names – Net	**21,938**	23,297
Distribution Networks – Net	**11,942**	13,793
Other Intangible Assets – Net	**11,783**	15,386
Investments in and Advances to Equity Affiliates	**7,274**	1,780
Operating Lease Right-Of-Use Assets	**24,180**	24,714
Other Assets	**22,568**	23,617
Total Assets	**$ 551,622**	$ 525,761
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 24,630**	$ 3,470
Note payable to DIRECTV	**1,245**	—
Accounts payable and accrued liabilities	**50,661**	50,051
Advanced billings and customer deposits	**5,303**	6,176
Dividends payable	**3,749**	3,741
Total current liabilities	**85,588**	63,438
Long-Term Debt	**152,724**	153,775
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**65,226**	60,472
Postemployment benefit obligation	**12,649**	18,276
Operating lease liabilities	**21,261**	22,202
Other noncurrent liabilities	**30,223**	28,358
Noncurrent portion of note payable to DIRECTV	**96**	—
Total deferred credits and other noncurrent liabilities	**129,455**	129,308
Stockholders' Equity		
Preferred stock ($1 par value, 10,000,000 authorized at December 31, 2021 and December 31, 2020):		
Series A (48,000 issued and outstanding at December 31, 2021 and December 31, 2020)	**—**	—
Series B (20,000 issued and outstanding at December 31, 2021 and December 31, 2020)	**—**	—
Series C (70,000 issued and outstanding at December 31, 2021 and December 31, 2020)	**—**	—
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2021 and December 31, 2020: issued 7,620,748,598 at December 31, 2021 and December 31, 2020)	**7,621**	7,621
Additional paid-in capital	**130,112**	130,175
Retained earnings	**42,350**	37,457
Treasury stock (479,684,705 at December 31, 2021 and 494,826,583 at December 31, 2020, at cost)	**(17,280)**	(17,910)
Accumulated other comprehensive income	**3,529**	4,330
Noncontrolling interest	**17,523**	17,567
Total stockholders' equity	**183,855**	179,240
Total Liabilities and Stockholders' Equity	**$ 551,622**	$ 525,761

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

Consolidated Statements of Cash Flows
Dollars in millions except per share amounts

	2021	2020	2019
Operating Activities			
Net income (loss)	**$ 21,479**	$ (3,821)	$ 14,975
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**22,862**	28,516	28,217
Amortization of film and television costs	**11,006**	8,603	9,587
Distributed (undistributed) earnings from investments in equity affiliates	**184**	38	295
Provision for uncollectible accounts	**1,240**	1,972	2,575
Deferred income tax expense	**5,246**	1,675	1,806
Net (gain) loss on investments, net of impairments	**(927)**	(742)	(1,218)
Pension and postretirement benefit expense (credit)	**(3,848)**	(2,992)	(2,002)
Actuarial (gain) loss on pension and postretirement benefits	**(4,140)**	4,169	5,171
Asset impairments and abandonments	**4,904**	18,880	1,458
Changes in operating assets and liabilities:			
Receivables	**(634)**	2,216	2,812
Other current assets, inventories and theatrical film and television production costs	**(16,472)**	(13,070)	(12,852)
Accounts payable and other accrued liabilities	**1,636**	(1,410)	(1,524)
Equipment installment receivables and related sales	**(265)**	(1,429)	548
Deferred customer contract acquisition and fulfillment costs	**52**	376	(910)
Postretirement claims and contributions	**(822)**	(985)	(1,008)
Other – net	**456**	1,134	738
Total adjustments	**20,478**	46,951	33,693
Net Cash Provided by Operating Activities	**41,957**	43,130	48,668
Investing Activities			
Capital expenditures	**(16,527)**	(15,675)	(19,635)
Acquisitions, net of cash acquired	**(25,453)**	(1,851)	(1,809)
Dispositions	**8,740**	3,641	4,684
Distributions from DIRECTV in excess of cumulative equity in earnings	**1,323**	—	—
Other – net	**(172)**	337	70
Net Cash Used in Investing Activities	**(32,089)**	(13,548)	(16,690)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**1,316**	(17)	(276)
Issuance of other short-term borrowings	**21,856**	9,440	4,012
Repayment of other short-term borrowings	**(7,510)**	(9,467)	(6,904)
Issuance of long-term debt	**9,931**	31,988	17,039
Repayment of long-term debt	**(3,142)**	(39,964)	(27,592)
Note payable to DIRECTV, net of payments of $459	**1,341**	—	—
Payment of vendor financing	**(4,596)**	(2,966)	(3,050)
Issuance of preferred stock	**—**	3,869	1,164
Purchase of treasury stock	**(202)**	(5,498)	(2,417)
Issuance of treasury stock	**96**	105	631
Issuance of preferred interests in subsidiaries	**—**	1,979	7,876
Redemption of preferred interest in subsidiary	**—**	(1,950)	—
Dividends paid	**(15,068)**	(14,956)	(14,888)
Other – net	**(2,444)**	(4,570)	(678)
Net Cash Provided by (Used) in Financing Activities	**1,578**	(32,007)	(25,083)
Net increase (decrease) in cash and cash equivalents and restricted cash	**11,446**	(2,425)	6,895
Cash and cash equivalents and restricted cash beginning of year	**9,870**	12,295	5,400
Cash and Cash Equivalents and Restricted Cash End of Year	**$ 21,316**	$ 9,870	$ 12,295

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

Consolidated Statements of Changes in Stockholders' Equity
Dollars and shares in millions except per share amounts

	2021		2020		2019	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Preferred Stock – Series A						
Balance at beginning of year	**—**	**$ —**	—	$ —	—	$ —
Issuance of stock	**—**	**—**	—	—	—	—
Balance at end of year	**—**	**$ —**	—	$ —	—	$ —
Preferred Stock – Series B						
Balance at beginning of year	**—**	**$ —**	—	$ —	—	$ —
Issuance of stock	**—**	**—**	—	—	—	—
Balance at end of year	**—**	**$ —**	—	$ —	—	$ —
Preferred Stock – Series C						
Balance at beginning of year	**—**	**$ —**	—	$ —	—	$ —
Issuance of stock	**—**	**—**	—	—	—	—
Balance at end of year	**—**	**$ —**	—	$ —	—	$ —
Common Stock						
Balance at beginning of year	**7,621**	**$ 7,621**	7,621	$ 7,621	7,621	$ 7,621
Issuance of stock	**—**	**—**	—	—	—	—
Balance at end of year	**7,621**	**$ 7,621**	7,621	$ 7,621	7,621	$ 7,621
Additional Paid-In Capital						
Balance at beginning of year		**$ 130,175**		$ 126,279		$ 125,525
Repurchase and acquisition of common stock		**—**		67		—
Issuance of preferred stock		**—**		3,869		1,164
Issuance of treasury stock		**(76)**		(62)		(125)
Share-based payments		**13**		18		(271)
Changes related to acquisition of interests held by noncontrolling owners		**—**		4		(14)
Balance at end of year		**$ 130,112**		$ 130,175		$ 126,279
Retained Earnings						
Balance at beginning of year		**$ 37,457**		$ 57,936		$ 58,753
Cumulative effect of accounting changes and other adjustments		**—**		(293)		316
Adjusted beginning balance		**37,457**		57,643		59,069
Net income (loss) attributable to AT&T		**20,081**		(5,176)		13,903
Preferred stock dividends		**(224)**		(139)		(8)
Common stock dividends ($2.08, $2.08, and $2.05 per share)		**(14,964)**		(14,871)		(15,028)
Balance at end of year		**$ 42,350**		$ 37,457		$ 57,936

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

Consolidated Statements of Changes in Stockholders' Equity – continued
Dollars and shares in millions except per share amounts

	2021		2020		2019	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Treasury Stock						
Balance at beginning of year	**(495)**	**$ (17,910)**	(366)	$ (13,085)	(339)	$ (12,059)
Repurchase and acquisition of common stock	**(8)**	**(237)**	(150)	(5,631)	(67)	(2,492)
Issuance of treasury stock	**23**	**867**	21	806	40	1,466
Balance at end of year	**(480)**	**$ (17,280)**	(495)	$ (17,910)	(366)	$ (13,085)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax:						
Balance at beginning of year		**$ 4,330**		$ 5,470		$ 4,249
Other comprehensive income (loss) attributable to AT&T		**(801)**		(1,140)		1,221
Balance at end of year		**$ 3,529**		$ 4,330		$ 5,470
Noncontrolling Interest:						
Balance at beginning of year		**$ 17,567**		$ 17,713		$ 9,795
Cumulative effect of accounting changes and other adjustments		**—**		(7)		29
Adjusted beginning balance		**17,567**		17,706		9,824
Net income attributable to noncontrolling interest		**1,398**		1,355		1,072
Issuance and acquisition of noncontrolling owners		**7**		1,979		7,881
Redemption of noncontrolling interest		**—**		(1,950)		—
Distributions		**(1,447)**		(1,464)		(1,055)
Translation adjustments attributable to noncontrolling interest, net of taxes		**(2)**		(59)		(9)
Balance at end of year		**$ 17,523**		$ 17,567		$ 17,713
Total Stockholders' Equity at beginning of year		**$ 179,240**		$ 201,934		$ 193,884
Total Stockholders' Equity at end of year		**$ 183,855**		$ 179,240		$ 201,934

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

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 subsidiaries and affiliates which we control. AT&T is a holding company whose subsidiaries and affiliates operate worldwide in the telecommunications, media and technology industries.

On July 31, 2021, we closed our transaction with TPG Capital (TPG) to form a new company named DIRECTV Entertainment Holdings, LLC (DIRECTV). With the close of the transaction, we separated and deconsolidated our Video business, comprised of our U.S. video operations, and began accounting for our investment in DIRECTV under the equity method (see Notes 6 and 10). On November 15, 2021, we sold our Latin America video operations, Vrio, to Grupo Werthein (see Note 6).

All significant intercompany transactions are eliminated in the consolidation process. Investments in subsidiaries and partnerships which we do not control but have significant influence are accounted for under the equity method. Earnings from certain investments accounted for using the equity method are included in our results on a one quarter lag. 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, including other estimates of probable losses and expenses, that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Certain prior-period amounts have been conformed to the current period's presentation.

Accounting Policies and Adopted Accounting Standards

Credit Losses As of January 1, 2020, we adopted, through modified retrospective application, the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," or Accounting Standards Codification (ASC) 326 (ASC 326), which replaces the incurred loss impairment methodology under prior GAAP with an expected credit loss model. ASC 326 affects trade receivables, loans, contract assets, certain beneficial interests, off-balance-sheet credit exposures not accounted for as insurance and other financial assets that are not subject to fair value through net income, as defined by the standard. Under the expected credit loss model, we are required to consider future economic trends to estimate expected credit losses over the lifetime of the asset. Upon adoption on January 1, 2020, we recorded a $293 reduction to "Retained earnings," $395 increase to "Allowances for credit losses" applicable to our trade and loan receivables, $10 reduction of contract assets, $105 reduction of net deferred income tax liability and $7 reduction of "Noncontrolling interest." Our adoption of ASC 326 did not have a material impact on our financial statements.

Leases As of January 1, 2019, we adopted, with modified retrospective application, the FASB's ASU No. 2016-02, "Leases (Topic 842)" (ASC 842), which replaces existing leasing rules with a comprehensive lease measurement and recognition standard and expanded disclosure requirements (see Note 8). ASC 842 requires lessees to recognize most leases on their balance sheets as liabilities, with corresponding "right-of-use" assets. For income statement recognition purposes, leases are classified as either a finance or an operating lease without relying upon bright-line tests.

The key change upon adoption of the standard was balance sheet recognition of operating leases, given that the recognition of lease expense on our income statement is similar to our historical accounting. Using the modified retrospective transition method of adoption, we did not adjust the balance sheet for comparative periods but recorded a cumulative effect adjustment to retained earnings on January 1, 2019. We elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed us to carry forward our historical lease classification. We also elected the practical expedient related to land easements, allowing us to carry forward our accounting treatment for land easements on existing agreements that were not accounted for as leases. We excluded leases with original terms of one year or less. Additionally, we elected to not separate lease and non-lease components for certain classes of assets. Our accounting for finance leases did not change from our prior accounting for capital leases.

The adoption of ASC 842 resulted in the recognition of an operating lease liability of $22,121 and an operating right-of-use asset of the same amount. Existing prepaid and deferred rent accruals were recorded as an offset to the right-of-use asset, resulting in a net asset of $20,960. The cumulative effect of the adoption to retained earnings was an increase of $316 reflecting the reclassification of deferred gains related to sale/leaseback transactions. The standard did not materially impact our income statements or statements of cash flows, and had no impact on our covenant compliance under our current debt agreements.

Income Taxes We record 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 record 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.

As of January 1, 2021, we adopted, with modified retrospective application, the FASB's ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" (ASU 2019-12), which is expected to simplify income tax accounting requirements in areas deemed costly and complex. ASU 2019-12 did not have a material impact on our financial statements.

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, 2021, we held $5,204 in cash and $15,965 in money market funds and other cash equivalents. Of our total cash and cash equivalents, $2,706 resided in foreign jurisdictions, some of which is subject to restrictions on repatriation.

Allowance for Credit Losses We record expense to maintain an allowance for credit losses 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 allowances for trade receivables and loans, we consider the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends and general economic factors, including bankruptcy rates. We also consider future economic trends to estimate expected credit losses over the lifetime of the asset. 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.

Inventories Inventories primarily consist of wireless devices and accessories and are valued at the lower of cost or net realizable value.

Licensed Programming Inventory Cost Recognition and Impairment We enter into agreements to license programming exhibition rights from licensors. A programming inventory asset related to these rights and a corresponding liability payable to the licensor are recorded (on a discounted basis if the license agreements are long-term) when (i) the cost of the programming is reasonably determined, (ii) the programming material has been accepted in accordance with the terms of the agreement, (iii) the programming is available for its first showing or telecast, and (iv) the license period has commenced. There are variations in the amortization methods of these rights, depending on whether the network is advertising-supported (e.g., TNT and TBS) or not advertising-supported (e.g., HBO and Turner Classic Movies).

For the advertising-supported networks, our general policy is to amortize each program's costs on a straight-line basis (or per-play basis, if greater) over its license period. In circumstances where the initial airing of the program has more value than subsequent airings, an accelerated method of amortization is used. The accelerated amortization upon the first airing versus subsequent airings is determined based on a study of historical and estimated future advertising sales for similar programming. For rights fees paid for sports programming arrangements, such rights fees are amortized using a revenue-forecast model, in which the rights fees are amortized using the ratio of current period advertising revenue to total estimated remaining advertising revenue over the term of the arrangement.

For premium pay television, streaming and over-the-top (OTT) services that are not advertising-supported, each licensed program's costs are amortized on a straight-line basis over its license period or estimated period of use, beginning with the month of initial exhibition. When we have the right to exhibit feature theatrical programming in multiple windows over a number of years, historical audience viewership is used as the basis for determining the amount of programming amortization attributable to each window.

Licensed programming inventory is carried at the lower of unamortized cost or fair value. For networks that generate both advertising and subscription revenues, the net realizable value of unamortized programming costs is generally evaluated based on the network's programming taken as a whole. In assessing whether the programming inventory for a particular advertising-supported network is impaired, the net realizable value for all of the network's programming inventory is determined based on a projection of the network's profitability. This assessment would occur upon the occurrence of certain triggering events. Similarly, for premium pay television, streaming and OTT services that are not advertising-supported, an evaluation of the fair value of unamortized programming costs is performed based on services' licensed programming taken as a whole. Specifically, the fair value for all premium pay television, streaming and OTT service licensed programming is determined based on projections of estimated subscription revenues less certain costs of delivering and distributing the licensed programming. Changes in management's intended usage of a specific program, such as a decision to no longer exhibit that program and forgo the use of the rights associated with

the program license, results in a reassessment of that program's fair value, which could result in an impairment (see Note 11).

Film and Television Production Cost Recognition, Participations and Residuals and Impairments Film and television production costs on our consolidated balance sheets include the unamortized cost of completed theatrical films and television episodes, theatrical films and television series in production and undeveloped film and television rights. Film and television production costs are stated at the lower of cost, less accumulated amortization, or fair value. For films and television programs predominantly monetized individually, the amount of capitalized film and television production costs and the amount of participations and residuals to be recognized as broadcast, programming and operations expenses for a given film or television series in a particular period are determined using the film forecast computation method. Under this method, the amortization of capitalized costs and the accrual of participations and residuals are based on the proportion of the film's (or television program's) revenues recognized for such period to the film's (or television program's) estimated remaining ultimate revenues (i.e., the total revenue to be received throughout a film's (or television program's) life cycle).

The process of estimating a film's ultimate revenues requires us to make a series of judgments related to future revenue-generating activities associated with a particular film. We estimate the ultimate revenues, less additional costs to be incurred (including exploitation and participation costs), in order to determine whether the value of a film or television series is impaired and requires an immediate write-off of unrecoverable film and television production costs. To the extent that the ultimate revenues are adjusted, the resulting gross margin reported on the exploitation of that film or television series in a period is also adjusted. (See Note 11)

Prior to the theatrical release of a film, our estimates are based on factors such as the historical performance of similar films, the star power of the lead actors, the rating and genre of the film, pre-release market research (including test market screenings), international distribution plans and the expected number of theaters in which the film will be released. In the absence of revenues directly related to the exhibition of owned film or television programs on our television networks, premium pay television, streaming or OTT services, we estimate a portion of the unamortized costs that are representative of the utilization of that film or television program in that exhibition and expense such costs as the film or television program is exhibited. The period over which ultimate revenues are estimated generally does not exceed ten years from the initial release of a motion picture or from the date of delivery of the first episode of an episodic television series. Estimates were updated based on information available during the film's production and, upon release, the actual results of each film.

For a film (or television program) predominantly monetized as part of a film (or television program) group, the amount of capitalized film and television production costs is amortized using a reasonably reliable estimate of the portion of unamortized film costs that is representative of the use of the film. Production costs are expensed as the film (or television program) is exhibited or exploited.

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 7). The cost of additions and substantial improvements to property, plant and equipment is capitalized, and includes internal compensation costs for these projects. 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 7)

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 – Net" 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 seven-year period, reflecting the estimated period during which these assets will remain in service.

Goodwill and Other Intangible Assets We have the following major classes of intangible assets: goodwill; licenses, which include Federal Communications Commission (FCC) and other wireless licenses; distribution networks; film and television libraries; intellectual properties and franchises; trademarks and trade names; customer lists; and various other finite-lived intangible assets (see Note 9).

Goodwill represents the excess of consideration paid over the fair value of identifiable net assets acquired in business combinations. Wireless 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 ten years), renewals of domestic wireless licenses have occurred routinely and at nominal cost. We have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our FCC wireless licenses.

We amortize our wireless licenses in Mexico over their average remaining economic life of 25 years.

We acquired the rights to the AT&T and other trade names in previous acquisitions, classifying certain of those trade names as indefinite-lived. We have the effective ability to retain these exclusive rights permanently at a nominal cost.

Goodwill, FCC wireless 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 values of the assets to their fair values. Goodwill is tested by comparing the carrying amount of each reporting unit, deemed to be our principal operating segments or one level below them, to the fair value using both discounted cash flow as well as market multiple approaches. FCC 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. Prior to 2020, orbital slots were similarly aggregated for purposes of impairment testing and valued using a discounted cash flow approach. Trade names are tested by comparing their book values to their fair values calculated using a discounted cash flow approach on a presumed royalty rate derived from the revenues related to each brand name.

Intangible assets that have finite useful lives are amortized over their estimated useful lives (see Note 9). As of January 1, 2020, on a prospective basis, orbital slots were amortized using the sum-of-the-months-digits method of amortization over their average remaining economic life (ceased in 2021 in conjunction with the transfer of the orbital slots as part of the DIRECTV transaction). 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. Finite-lived trademarks and trade names and distribution networks are amortized using the straight-line method over the estimated useful life of the assets. Film library is amortized using the film forecast computation method, as previously disclosed. The remaining finite-lived intangible assets are generally amortized using the straight-line method. These assets, along with other long-lived assets, are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable (see Note 6).

Advertising Costs We expense advertising costs for products and services or for promoting our corporate image as incurred (see Note 23).

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 OCI in our consolidated balance sheets (see Note 3). Operations in countries with highly inflationary economies use the U.S. dollar as the functional currency.

We hedge a portion of the foreign currency exchange risk involved in certain foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 13).

Pension and Other Postretirement Benefits See Note 15 for a comprehensive discussion of our pension and postretirement benefits, including a discussion of the actuarial assumptions, our policy for recognizing the associated gains and losses and our method used to estimate service and interest cost components.

New Accounting Standards

Reference Rate Reform In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" (ASU 2020-04, as amended), which provides optional expedients, and allows for certain exceptions to existing GAAP, for contract modifications triggered by the expected market transition of certain benchmark interest rates to alternative reference rates. ASU 2020-04 applies to contracts, hedging relationships, certain derivatives and other arrangements that reference the London Interbank Offering Rate (LIBOR) or any other rates ending after December 31, 2022. ASU 2020-04, as amended, became effective immediately. We do not believe our adoption of ASU 2020-04, including optional expedients, will materially impact our financial statements.

Convertible Instruments Beginning with 2022 interim reporting, we will adopt ASU No. 2020-06, "Debt—Debt With Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" (ASU 2020-06). ASU 2020-06 eliminated certain separation models regarding cash conversion and beneficial conversion features to simplify reporting for convertible instruments as a single liability or equity, with no separate accounting for embedded conversion features. Additionally, ASU 2020-06 requires that instruments which may be settled in cash or stock are presumed settled in stock in calculating diluted earnings per share. While our intent is to settle the Mobility II preferred interests in cash (see Note 17), settlement of this instrument in AT&T shares will result in additional dilutive impact, the magnitude of which is influenced by the fair value of the Mobility II preferred interests and the average AT&T common stock price during the reporting period, which could vary from period-to-period. We are currently evaluating our adoption method and the impact on our financial statements, as our recent decision (February 2022) on methodology of distribution to AT&T's shareholders (i.e., pro rata dividend) for the pending WarnerMedia transaction could affect the impact of ASU 2020-06 on our financial statements (see Note 6).

Government Assistance In November 2021, the FASB issued ASU No. 2021-10, "Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance" (ASU 2021-10), which requires annual disclosures, in the notes to the financial statements, about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy to other guidance. The annual disclosures include terms and conditions, accounting treatment and impacted financial statement lines reflecting the impact of the transactions. ASU 2021-10 will be effective for annual reporting periods beginning after December 15, 2021, under prospective or retrospective application for all in scope government transactions in the financial statements as of our adoption date or thereafter. We are evaluating the disclosure impacts of our adoption of ASU 2021-10.

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,	**2021**	2020	2019
Numerators			
Numerator for basic earnings per share:			
Net Income (Loss) Attributable to Common Stock	**$ 19,874**	$ (5,369)	$ 13,900
Dilutive potential common shares:			
Share-based payment[1]	**22**	23	21
Numerator for diluted earnings per share	**$ 19,896**	$ (5,346)	$ 13,921
Denominators (000,000)			
Denominator for basic earnings per share:			
Weighted average number of common shares outstanding	**7,168**	7,157	7,319
Dilutive potential common shares:			
Share-based payment (in shares)[1]	**31**	26	29
Denominator for diluted earnings per share	**7,199**	7,183	7,348

[1] For 2020, dilutive potential common shares are not included in the computation of diluted earnings per share because their effect is antidilutive as a result of the net loss.

In the first quarter of 2020, we completed an accelerated share repurchase agreement with a third-party financial institution to repurchase AT&T common stock (see Note 17). Under the terms of the agreement, we paid the financial institution $4,000 and received 104.8 million shares.

Upon adoption of ASU 2020-06, the ability to settle our Mobility II preferred interests in stock will be reflected in our diluted earnings per share calculation. The numerator will include an adjustment to add back to income the distributions on the Mobility II preferred interests of $140 per quarter, or $560 annually. The denominator will include the potential issuance of AT&T common stock to settle the 320 million Mobility II preferred interests outstanding. (See Note 1)

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 Derivative Instruments	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of December 31, 2018	$ (3,084)	$ (2)	$ 818	$ 6,517	$ 4,249
Other comprehensive income (loss) before reclassifications	28	50	(900)	3,457	2,635
Amounts reclassified from accumulated OCI	— [1]	— [1]	45 [2]	(1,459) [3]	(1,414)
Net other comprehensive income (loss)	28	50	(855)	1,998	1,221
Balance as of December 31, 2019	(3,056)	48	(37)	8,515	5,470
Other comprehensive income (loss) before reclassifications	(870)	78	(811)	2,250	647
Amounts reclassified from accumulated OCI	— [1]	(15) [1]	69 [2]	(1,841) [3]	(1,787)
Net other comprehensive income (loss)	(870)	63	(742)	409	(1,140)
Balance as of December 31, 2020	(3,926)	111	(779)	8,924	4,330
Other comprehensive income (loss) before reclassifications	(125)	(63)	(715)	(34)	(937)
Amounts reclassified from accumulated OCI	2,087 [1,4]	(3) [1]	72 [2]	(2,020) [3]	136
Net other comprehensive income (loss)	1,962	(66)	(643)	(2,054)	(801)
Balance as of December 31, 2021	**$ (1,964)**	**$ 45**	**$ (1,422)**	**$ 6,870**	**$ 3,529**

[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 13).
[3] The amortization of prior service credits associated with postretirement benefits is included in "Other income (expense) – net" in the consolidated statements of income (see Note 15).
[4] Represents unrealized foreign currency translation adjustments at Vrio that were released upon sale. (See Note 6)

NOTE 4. SEGMENT INFORMATION

Our segments are comprised of 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 operating 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 three reportable segments: (1) Communications, (2) WarnerMedia and (3) Latin America.

We also evaluate segment and business unit performance based on EBITDA and/or EBITDA margin. EBITDA is defined as operating 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 depreciation and amortization expenses incurred in operating contribution nor is it burdened by 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 ***Communications segment*** provides wireless and wireline telecom and broadband services to consumers located in the U.S. and businesses globally. Our business strategies reflect bundled product offerings that cut across product lines and utilize shared assets. This segment contains the following business units:

- **Mobility** provides nationwide wireless service and equipment.
- **Business Wireline** provides advanced IP-based services, as well as traditional voice and data services and related equipment to business customers.
- **Consumer Wireline** provides internet, including broadband fiber, and legacy telephony voice communication services to residential customers.

The ***WarnerMedia segment*** develops, produces and distributes feature films, television, gaming and other content in various physical and digital formats globally. WarnerMedia content is distributed through basic networks, Direct-to-Consumer (DTC) or theatrical, TV content and games licensing. Segment results also include Xandr advertising and Otter Media Holdings (Otter Media). We disposed of substantially all Otter Media assets in the third quarter of 2021 (see Note 6).

On May 17, 2021, we entered into an agreement to combine our WarnerMedia segment, subject to certain exceptions, with a subsidiary of Discovery Inc. (See Note 6)

On December 21, 2021, we entered into an agreement to sell the marketplace component of Xandr to Microsoft Corporation (Microsoft) (see Note 6). We applied held-for-sale accounting for Xandr as of December 31, 2021, and continue to present the Xandr results within the WarnerMedia segment consistent with how performance was assessed and resource allocation decision were made through December 31, 2021.

The ***Latin America segment*** provides wireless services and equipment in Mexico, and prior to the November 2021 disposition of Vrio, video services in Latin America and the Caribbean. We applied held-for-sale accounting to Vrio as of June 30, 2021 and continued to present the Vrio results within the Latin America segment consistent with how performance was assessed and resource allocation decisions were made until the transaction closed.

Corporate and Other reconciles our segment results to consolidated operating income and income before income taxes, and includes:

- *Corporate*, which consists of: (1) businesses no longer integral to our operations or which we no longer actively market, (2) corporate support functions, (3) impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, and (4) the reclassification of the amortization of prior service credits, which we continue to report with segment operating expenses, to consolidated "Other income (expense) – net." Costs previously allocated to the Video business that were retained after the transaction, net of reimbursements from DIRECTV under transition service agreements, are reported in Corporate following the transaction through 2022, to maintain comparability of our operating segment results, and while operational plans and continued cost reduction initiatives are implemented.
- *Video,* which consists of our former U.S. video operations that were contributed to DIRECTV on July 31, 2021 and also includes our share of DIRECTV's earnings as equity in net income of affiliates (see Note 10).
- *Acquisition-related items,* which consists of items associated with the merger and integration of acquired or divested businesses, including amortization of intangible assets.
- *Certain significant items,* which includes (1) employee separation charges associated with voluntary and/or strategic offers, (2) asset impairments and abandonments, and (3) other items for which the segments are not being evaluated.
- *Eliminations and consolidations*, which (1) removes transactions involving dealings between our segments, including channel distribution between WarnerMedia and Video and Vrio prior to separation, and (2) includes adjustments for our reporting of the advertising business.

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

For the year ended December 31, 2021

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Operating Contribution
Communications							
Mobility	**$ 78,254**	**$ 46,820**	**$ 31,434**	**$ 8,122**	**$ 23,312**	**$ —**	**$ 23,312**
Business Wireline	**23,937**	**14,755**	**9,182**	**5,192**	**3,990**	**—**	**3,990**
Consumer Wireline	**12,539**	**8,467**	**4,072**	**3,095**	**977**	**—**	**977**
Total Communications	**114,730**	**70,042**	**44,688**	**16,409**	**28,279**	**—**	**28,279**
WarnerMedia	**35,632**	**27,737**	**7,895**	**656**	**7,239**	**38**	**7,277**
Latin America							
Mexico	**2,747**	**2,652**	**95**	**605**	**(510)**	**—**	**(510)**
Vrio	**2,607**	**2,302**	**305**	**231**	**74**	**6**	**80**
Total Latin America	**5,354**	**4,954**	**400**	**836**	**(436)**	**6**	**(430)**
Segment Total	**155,716**	**102,733**	**52,983**	**17,901**	**35,082**	**44**	**35,126**
Corporate and Other							
Corporate[1]	**1,264**	**4,805**	**(3,541)**	**372**	**(3,913)**	**(32)**	**(3,945)**
Video	**15,513**	**12,666**	**2,847**	**356**	**2,491**	**619**	**3,110**
Acquisition-related items	**—**	**299**	**(299)**	**4,233**	**(4,532)**	**—**	**(4,532)**
Certain significant items	**—**	**4,961**	**(4,961)**	**—**	**(4,961)**	**—**	**(4,961)**
Eliminations and consolidations	**(3,629)**	**(2,809)**	**(820)**	**—**	**(820)**	**—**	**(820)**
AT&T Inc.	**$ 168,864**	**$ 122,655**	**$ 46,209**	**$ 22,862**	**$ 23,347**	**$ 631**	**$ 23,978**

[1] Includes $2,680 for the reclassification of prior service credit amortization and approximately $200 of retained operation and support costs and $240 of depreciation expense previously allocated to Video, net of reimbursements.

For the year ended December 31, 2020

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Operating Contribution
Communications							
Mobility	$ 72,564	$ 42,106	$ 30,458	$ 8,086	$ 22,372	$ —	$ 22,372
Business Wireline	25,083	15,303	9,780	5,216	4,564	—	4,564
Consumer Wireline	12,318	8,027	4,291	2,914	1,377	—	1,377
Total Communications	109,965	65,436	44,529	16,216	28,313	—	28,313
WarnerMedia	30,442	21,579	8,863	671	8,192	18	8,210
Latin America							
Mexico	2,562	2,636	(74)	513	(587)	—	(587)
Vrio	3,154	2,800	354	520	(166)	24	(142)
Total Latin America	5,716	5,436	280	1,033	(753)	24	(729)
Segment Total	146,123	92,451	53,672	17,920	35,752	42	35,794
Corporate and Other							
Corporate[1]	2,207	4,205	(1,998)	310	(2,308)	53	(2,255)
Video	28,610	24,174	4,436	2,262	2,174	—	2,174
Acquisition-related items	—	468	(468)	8,012	(8,480)	—	(8,480)
Certain significant items	—	19,156	(19,156)	14	(19,170)	—	(19,170)
Eliminations and consolidations	(5,180)	(3,615)	(1,565)	(2)	(1,563)	—	(1,563)
AT&T Inc.	$ 171,760	$ 136,839	$ 34,921	$ 28,516	$ 6,405	$ 95	$ 6,500

[1] Includes $2,442 for the reclassification of prior service credit amortization.

For the year ended December 31, 2019

	Revenues	Operations and Support Expenses	EBITDA	Depreciation and Amortization	Operating Income (Loss)	Equity in Net Income (Loss) of Affiliates	Operating Contribution
Communications							
Mobility	$ 71,056	$ 40,681	$ 30,375	$ 8,054	$ 22,321	$ —	$ 22,321
Business Wireline	25,901	15,839	10,062	4,925	5,137	—	5,137
Consumer Wireline	13,012	7,775	5,237	2,880	2,357	—	2,357
Total Communications	109,969	64,295	45,674	15,859	29,815	—	29,815
WarnerMedia	35,259	24,172	11,087	589	10,498	161	10,659
Latin America							
Mexico	2,869	3,085	(216)	502	(718)	—	(718)
Vrio	4,094	3,378	716	660	56	27	83
Total Latin America	6,963	6,463	500	1,162	(662)	27	(635)
Segment Total	152,191	94,930	57,261	17,610	39,651	188	39,839
Corporate and Other							
Corporate[1]	2,203	3,509	(1,306)	645	(1,951)	(182)	(2,133)
Video	32,124	27,275	4,849	2,461	2,388	—	2,388
Acquisition-related items	(72)	960	(1,032)	7,460	(8,492)	—	(8,492)
Certain significant items	—	2,082	(2,082)	43	(2,125)	—	(2,125)
Eliminations and consolidations	(5,253)	(3,735)	(1,518)	(2)	(1,516)	—	(1,516)
AT&T Inc.	$ 181,193	$ 125,021	$ 56,172	$ 28,217	$ 27,955	$ 6	$ 27,961

[1] Includes $1,934 for the reclassification of prior service credit amortization.

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

	2021	2020	2019
Communications	**$ 28,279**	$ 28,313	$ 29,815
WarnerMedia	**7,277**	8,210	10,659
Latin America	**(430)**	(729)	(635)
Segment Contribution	**35,126**	35,794	39,839
Reconciling Items:			
Corporate and Other	**(3,913)**	(2,308)	(1,951)
Video	**2,491**	2,174	2,388
Merger costs	**(299)**	(468)	(1,032)
Amortization of intangibles acquired	**(4,233)**	(8,012)	(7,460)
Asset impairments and abandonments	**(4,904)**	(18,880)	(1,458)
Gain on spectrum transaction[1]	**—**	900	—
Employee separation charges and benefit-related losses	**(57)**	(1,177)	(624)
Other noncash charges (credits), net	**—**	(13)	(43)
Segment equity in net income of affiliates	**(44)**	(42)	(188)
Eliminations and consolidations	**(820)**	(1,563)	(1,516)
AT&T Operating Income	**23,347**	6,405	27,955
Interest Expense	**6,884**	7,925	8,422
Equity in net income of affiliates	**631**	95	6
Other income (expense) – net	**9,853**	(1,431)	(1,071)
Income (Loss) Before Income Taxes	**$ 26,947**	$ (2,856)	$ 18,468

[1] Included as a reduction of "Selling, general and administrative expenses" in the consolidated statements of income.

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

	2021		2020		2019	
	Revenues	**Net Property, Plant & Equipment**	Revenues	Net Property, Plant & Equipment	Revenues	Net Property, Plant & Equipment
United States	**$ 151,631**	**$ 120,924**	$ 155,899	$ 121,208	$ 161,689	$ 122,567
Europe	**6,079**	**1,106**	5,387	1,152	6,536	1,854
Mexico	**3,043**	**3,462**	2,862	3,530	3,198	3,648
Brazil	**1,486**	**20**	1,807	694	2,797	1,057
All other Latin America	**3,118**	**115**	2,679	485	3,219	544
Asia/Pacific Rim	**2,637**	**240**	2,322	203	2,793	390
Other	**870**	**37**	804	43	961	68
Total	**$ 168,864**	**$ 125,904**	$ 171,760	$ 127,315	$ 181,193	$ 130,128

The following tables present intersegment revenues, assets, investments in equity affiliates and capital expenditures by segment:

Intersegment Reconciliation

	2021	2020	2019
Intersegment revenues			
Communications	**$ 11**	$ 11	$ 26
WarnerMedia	**2,573**	3,183	3,318
Latin America	**—**	—	—
Total Intersegment Revenues	**2,584**	3,194	3,344
Consolidations	**1,045**	1,986	1,909
Eliminations and consolidations	**$ 3,629**	$ 5,180	$ 5,253

At or for the years ended December 31,	2021			2020		
	Assets	**Investments in Equity Method Investees**	**Capital Expenditures**	Assets	Investments in Equity Method Investees	Capital Expenditures
Communications	**$ 494,063**	**$ —**	**$ 14,860**	$ 506,102	$ —	$ 14,107
WarnerMedia	**154,369**	**1,122**	**764**	148,037	1,123	699
Latin America	**8,874**	**—**	**580**	15,811	590	708
Corporate and eliminations	**(105,684)**	**6,152**	**323**	(144,189)	67	161
Total	**$ 551,622**	**$ 7,274**	**$ 16,527**	$ 525,761	$ 1,780	$ 15,675

NOTE 5. REVENUE RECOGNITION

We report our revenues net of sales taxes and record certain regulatory fees, primarily Universal Service Fund (USF) fees, on a net basis. No customer accounted for more than 10% of consolidated revenues in 2021, 2020 or 2019.

Wireless, Advanced Data, Legacy Voice & Data Services and Equipment Revenue

We offer service-only contracts and contracts that bundle equipment used to access the services and/or with other service offerings. Some contracts have fixed terms and others are cancellable on a short-term basis (i.e., month-to-month arrangements).

Examples of service revenues include wireless, strategic services (e.g., virtual private network service), and legacy voice and data (e.g., traditional local and long-distance). These services represent a series of distinct services that is considered a separate performance obligation. Service revenue is recognized when services are provided, based upon either usage (e.g., minutes of traffic/bytes of data processed) or period of time (e.g., monthly service fees).

Some of our services require customer premises equipment that, when combined and integrated with AT&T's specific network infrastructure, facilitates the delivery of service to the customer. In evaluating whether the equipment is a separate performance obligation, we consider the customer's ability to benefit from the equipment on its own or together with other readily available resources and if so, whether the service and equipment are separately identifiable (i.e., is the service highly dependent on, or highly interrelated with the equipment). When the equipment does not meet the criteria to be a separate performance obligation (e.g., equipment associated with certain video services), we allocate the total transaction price to the related service. When equipment is a separate performance obligation, we record the sale of equipment when title has passed and the products are accepted by the customer. For devices sold through indirect channels (e.g., national dealers), revenue is recognized when the dealer accepts the device, not upon activation.

Our equipment and service revenues are predominantly recognized on a gross basis, as most of our services do not involve a third party and we typically control the equipment that is sold to our customers.

Revenue recognized from fixed term contracts that bundle services and/or equipment is allocated based on the stand-alone selling price of all required performance obligations of the contract (i.e., each item included in the bundle). Promotional discounts are attributed to each required component of the arrangement, resulting in recognition over the contract term. Stand-alone selling prices are determined by assessing prices paid for service-only contracts (e.g., arrangements where customers bring their own devices) and stand-alone device pricing.

We offer the majority of our customers the option to purchase certain wireless devices in installments over a specified period of time, and, in many cases, 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, at the point of sale, we recognize revenue for the entire amount of revenue allocated to the customer receivable net of fair value of the trade-in right guarantee. The difference between the revenue recognized and the consideration received is recorded as a note receivable when the devices are not discounted and our right to consideration is unconditional. When installment sales include promotional discounts (e.g., "buy one get one free" or equipment discounts with trade-in of a device), the difference between revenue recognized and consideration received is recorded as a contract asset to be amortized over the contract term.

Less commonly, we offer certain customers highly discounted devices when they enter into a minimum service agreement term. For these contracts, we recognize equipment revenue at the point of sale based on a stand-alone selling price allocation. The difference between the revenue recognized and the cash received is recorded as a contract asset that will amortize over the contract term.

Our contracts allow for customers to frequently modify their arrangement, without incurring penalties in many cases. When a contract is modified, we evaluate the change in scope or price of the contract to determine if the modification should be treated as a new contract or if it should be considered a change of the existing contract. We generally do not have significant impacts from contract modifications.

Revenues from transactions between us and our customers are recorded net of revenue-based regulatory fees and taxes. Cash incentives given to customers are recorded as a reduction of revenue. Nonrefundable, upfront service activation and setup fees associated with service arrangements are deferred and recognized over the associated service contract period or customer relationship life.

Subscription Revenue

Subscription revenues from cable networks and premium pay and basic-tier television services are recognized over the license period as programming is provided to affiliates or digital distributors based on negotiated contractual programming rates. When a distribution contract with an affiliate has expired and a new distribution contract has not been executed, revenues are based on estimated rates, giving consideration to factors including the previous contractual rates, inflation, current payments by the affiliate and the status of the negotiations on a new contract. When the new distribution contract terms are finalized, an adjustment to revenue is recorded, if necessary, to reflect the new terms.

Subscription revenues from end-user subscribers are recognized when services are provided, based upon either usage or period of time. Subscription revenues from streaming services are recognized as programming services are provided to customers.

Content Revenue

Feature films typically are produced or acquired for initial exhibition in theaters, followed by distribution, generally commencing within three years of such initial exhibition. Revenues from film rentals by theaters are recognized as the films are exhibited.

Television programs and series are initially produced for broadcast and may be subsequently licensed or sold in physical format and/or electronic delivery. Revenues from the distribution of television programming through broadcast networks, cable networks, first-run syndication and streaming services are recognized when the programs or series are available to the licensee. In certain circumstances, pursuant to the terms of the applicable contractual arrangements, the availability dates granted to customers may precede the date in which the customer can be billed for these sales.

Revenues from sales of feature films and television programming in physical format are recognized at the later of the delivery date or the date when made widely available for sale or rental by retailers based on gross sales less a provision for estimated returns, rebates and pricing allowances. Revenues from the licensing of television programs and series for electronic sell-through or video-on-demand are recognized when the product has been purchased by and made available to the consumer to either download or stream.

Upfront or guaranteed payments for the licensing of intellectual property are recognized as revenue at either the inception of the license term if the intellectual property has significant standalone functionality or over the corresponding license term if the licensee's ability to derive utility is dependent on our continued support of the intellectual property throughout the license term.

Revenues from the sales of console games are recognized at the later of the delivery date or the date that the product is made widely available for sale or rental by retailers based on gross sales less a provision for estimated returns, rebates and pricing allowances.

Advertising Revenue

Advertising revenues are recognized, net of agency commissions, in the period that the advertisements are aired. If there is a targeted audience guarantee, revenues are recognized for the actual audience delivery and revenues are deferred for any shortfall until the guaranteed audience delivery is met, typically by providing additional advertisements. Advertising revenues from digital properties are recognized as impressions are delivered or the services are performed.

Revenue Categories

The following tables set forth reported revenue by category and by business unit:

For the year ended December 31, 2021

	Communications							
	Mobility	Business Wireline	Consumer Wireline	WarnerMedia	Latin America	Corporate & Other	Elim.	Total
Wireless service	**$ 57,260**	**$ —**	**$ —**	**$ —**	**$ 1,834**	**$ 74**	**$ —**	**$ 59,168**
Video service	**—**	**—**	**—**	**—**	**2,607**	**14,514**	**—**	**17,121**
Business service	**—**	**23,224**	**—**	**—**	**—**	**70**	**—**	**23,294**
Broadband	**—**	**—**	**9,085**	**—**	**—**	**—**	**—**	**9,085**
Subscription	**—**	**—**	**—**	**15,596**	**—**	**—**	**—**	**13,133**
DTC (HBO Max)[1]	**—**	**—**	**—**	**—**	**—**	**—**	**(1,051)**	
Other[2]	**—**	**—**	**—**	**—**	**—**	**—**	**(1,412)**	
Content	**—**	**—**	**—**	**15,621**	**—**	**—**	**—**	**12,622**
DTC (HBO Max)[3]	**—**	**—**	**—**	**(1,923)**	**—**	**—**	**—**	
Other[3]	**—**	**—**	**—**	**(1,076)**	**—**	**—**	**—**	
Advertising	**330**	**—**	**—**	**6,522**	**—**	**909**	**(909)**	**6,852**
Legacy voice and data	**—**	**—**	**1,977**	**—**	**—**	**429**	**—**	**2,406**
Other	**—**	**—**	**1,384**	**892**	**—**	**691**	**(257)**	**2,710**
Total Service	**57,590**	**23,224**	**12,446**	**35,632**	**4,441**	**16,687**	**(3,629)**	**146,391**
Equipment	**20,664**	**713**	**93**	**—**	**913**	**90**	**—**	**22,473**
Total	**$ 78,254**	**$ 23,937**	**$ 12,539**	**$ 35,632**	**$ 5,354**	**$ 16,777**	**$ (3,629)**	**$ 168,864**

[1] Represents DTC (HBO Max) intercompany sales to the Communications segment ($698 with Mobility and $353 with Consumer Wireline).
[2] Represents intercompany video distribution arrangements primarily to DIRECTV/U-verse from WarnerMedia prior to August 1, 2021 (see Note 20).
[3] Represents intercompany transactions in the WarnerMedia segment.

For the year ended December 31, 2020

	Communications							
	Mobility	Business Wireline	Consumer Wireline	WarnerMedia	Latin America	Corporate & Other	Elim.	Total
Wireless service	$ 55,251	$ —	$ —	$ —	$ 1,656	$ 528	$ —	$ 57,435
Video service	—	—	—	—	3,154	26,747	—	29,901
Business service	—	24,313	—	—	—	321	—	24,634
Broadband	—	—	8,534	—	—	—	—	8,534
Subscription	—	—	—	13,765	—	—	—	10,655
DTC (HBO Max)[1]	—	—	—	—	—	—	(468)	
Other[2]	—	—	—	—	—	—	(2,642)	
Content	—	—	—	13,083	—	—	—	9,819
DTC (HBO Max)[3]	—	—	—	(2,249)	—	—	—	
Other[3]	—	—	—	(1,015)	—	—	—	
Advertising	291	—	—	6,125	—	1,718	(1,718)	6,416
Legacy voice and data	—	—	2,213	—	—	554	—	2,767
Other	—	—	1,564	733	—	661	(352)	2,606
Total Service	55,542	24,313	12,311	30,442	4,810	30,529	(5,180)	152,767
Equipment	17,022	770	7	—	906	288	—	18,993
Total	$ 72,564	$ 25,083	$ 12,318	$ 30,442	$ 5,716	$ 30,817	$ (5,180)	$ 171,760

[1] Represents DTC (HBO Max) intercompany sales to the Communications segment ($285 with Mobility and $183 with Consumer Wireline).
[2] Represents intercompany video distribution arrangements primarily to DIRECTV/U-verse from WarnerMedia (see Note 20).
[3] Represents intercompany transactions in the WarnerMedia segment.

For the year ended December 31, 2019

	Communications							
	Mobility	Business Wireline	Consumer Wireline	WarnerMedia	Latin America	Corporate & Other	Elim.	Total
Wireless service	$ 55,039	$ —	$ —	$ —	$ 1,863	$ 628	$ —	$ 57,530
Video service	—	—	—	—	4,094	30,451	—	34,545
Business service	—	25,116	—	—	—	325	—	25,441
Broadband	—	—	8,403	—	—	—	—	8,403
Subscription	—	—	—	13,651	—	—	—	10,402
DTC (HBO Max)[1]	—	—	—	—	—	—	—	
Other[2]	—	—	—	—	—	—	(3,249)	
Content	—	—	—	14,938	—	—	—	13,880
DTC (HBO Max)[1]	—	—	—	—	—	—	—	
Other[3]	—	—	—	(1,058)	—	—	—	
Advertising	292	—	—	6,678	—	1,672	(1,672)	6,970
Legacy voice and data	—	—	2,573	—	—	565	—	3,138
Other	—	—	2,029	1,050	—	443	(332)	3,190
Total Service	55,331	25,116	13,005	35,259	5,957	34,084	(5,253)	163,499
Equipment	15,725	785	7	—	1,006	171	—	17,694
Total	$ 71,056	$ 25,901	$ 13,012	$ 35,259	$ 6,963	$ 34,255	$ (5,253)	$ 181,193

[1] HBO Max was launched in May 2020.
[2] Represents intercompany video distribution arrangements primarily to DIRECTV/U-verse from WarnerMedia (see Note 20).
[3] Represents intercompany transactions in the WarnerMedia segment.

Deferred Customer Contract Acquisition and Fulfillment Costs

Costs to acquire and fulfill customer contracts, including commissions on service activations, for our wireless, business wireline and consumer wireline services, are deferred and amortized over the contract period or expected customer relationship life, which typically ranges from three years to five years.

The following table presents the deferred customer contract acquisition and fulfillment costs included on our consolidated balance sheets at December 31:

Consolidated Balance Sheets	**2021**	2020
Deferred Acquisition Costs		
Other current assets	**$ 2,550**	$ 3,087
Other Assets	**3,248**	3,198
Total deferred customer contract acquisition costs	**$ 5,798**	$ 6,285
Deferred Fulfillment Costs		
Other current assets	**$ 2,601**	$ 4,118
Other Assets	**4,148**	5,634
Total deferred customer contract fulfillment costs	**$ 6,749**	$ 9,752

The decline in deferred acquisition and fulfillment costs from December 31, 2020 reflects the July 2021 separation of the U.S. Video business. At separation, we removed $1,218 of deferred acquisitions costs ($693 originally classified as "Prepaid and other current assets" and $525 originally classified as "Other assets") and $2,025 of deferred fulfillment costs ($1,134 originally classified as "Prepaid and other current assets" and $891 originally classified as "Other assets"). (See Note 6)

The following table presents deferred customer contract acquisition and fulfillment cost amortization included in "Other cost of revenue" for the year ended December 31:

Consolidated Statements of Income	**2021**	2020
Deferred acquisition cost amortization	**$ 3,072**	$ 2,755
Deferred fulfillment cost amortization	**4,019**	5,110

Contract Assets and Liabilities

A contract asset is recorded when revenue is recognized in advance of our right to bill and receive consideration. The contract asset will decrease as services are provided and billed. For example, when installment sales include promotional discounts (e.g., "buy one get one free") the difference between revenue recognized and consideration received is recorded as a contract asset to be amortized over the contract term.

Our contract assets primarily relate to our wireless businesses. Promotional equipment sales where we offer handset credits, which are allocated between equipment and service in proportion to their standalone selling prices, when customers commit to a specified service period result in additional contract assets recognized. These contract assets will amortize over the service contract period, resulting in lower future service revenue.

When consideration is received in advance of the delivery of goods or services, a contract liability is recorded. Reductions in the contract liability will be recorded as we satisfy the performance obligations.

The following table presents contract assets and liabilities on our consolidated balance sheets at December 31:

Consolidated Balance Sheets		**2021**		2020
Contract asset	**$**	**4,517**	$	3,501
Current portion in "Prepaid and other current assets"		**2,684**		2,054
Contract liability		**5,644**		6,879
Current portion in "Advanced billings and customer deposits"		**5,112**		6,071

Our contract asset balance in 2021 reflects increased promotional equipment sales in our wireless business. We expect the amortization of these promotional costs to increase throughout 2022 and the contract asset to flatten in 2023.

Changes in our contract asset and contract liability from December 31, 2020 include the impact of the July 2021 separation of the U.S. Video business. At separation, the contract asset was reduced $303 and the contract liability was reduced $1,098, both of which were predominantly the current portion. (See Note 6)

Our beginning of period contract liabilities recorded as customer contract revenue during 2021 was $5,662.

Remaining Performance Obligations

Remaining performance obligations primarily relate to our Communications segment and represent services we are required to provide to customers under bundled or discounted arrangements, which are satisfied as services are provided over the contract term. In our WarnerMedia segment, the most significant remaining performance obligations relate to the licensing of theatrical and television content which will be made available to customers at some point in the future. In determining the transaction price allocated, we do not include non-recurring charges and estimates for usage, nor do we consider arrangements with an original expected duration of less than one year, which are primarily prepaid wireless and residential internet agreements.

Remaining performance obligations associated with business contracts reflect recurring charges billed, adjusted to reflect estimates for sales incentives and revenue adjustments. Performance obligations associated with wireless contracts are estimated using a portfolio approach in which we review all relevant promotional activities, calculating the remaining performance obligation using the average service component for the portfolio and the average device price. As of December 31, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was $42,678, of which we expect to recognize approximately 57% by the end of 2022, with the balance recognized thereafter.

NOTE 6. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

Spectrum Auctions On February 24, 2021, the Federal Communications Commission (FCC) announced that AT&T was the winning bidder for 1,621 C-Band licenses, comprised of a total of 80 MHz nationwide, including 40 MHz in Phase I. We provided to the FCC an upfront deposit of $550 in 2020 and cash payments totaling $22,856 in the first quarter of 2021, for a total of $23,406. We received the licenses in July 2021 and classified the auction deposits, related capitalized interest and billed relocation costs as "Licenses – Net" on our December 31, 2021 consolidated balance sheet. In December 2021, we paid $955 of Incentive Payments upon clearing of Phase I spectrum and estimate that we will pay $2,112 upon clearing of Phase II spectrum, expected by the end of 2023. Additionally, we are responsible for approximately $1,000 of compensable relocation costs over the next several years as the spectrum is being cleared by satellite operators, of which $650 was paid in the fourth quarter of 2021. Cash paid, including spectrum deposits (net of refunds), capitalized interest, and any payments for incentive and relocation costs are included in "Acquisitions, net of cash acquired" on our consolidated statements of cash flows. Interest is capitalized until the spectrum is ready for its intended use. Funding for the purchase price of the spectrum included a combination of cash on hand and short-term investments, as well as short- and long-term debt.

On January 14, 2022, the FCC announced that we were the winning bidder for 1,624 3.45 GHz licenses in Auction 110. We provided the FCC an upfront deposit of $123 in the third quarter of 2021 and will pay the remaining $8,956 in the first quarter of 2022, for a total of $9,079. We intend to fund the purchase price using cash and short-term investments.

In June 2020, we completed the acquisition of $2,379 of 37/39 GHz spectrum in an FCC auction. Prior to the auction, we exchanged the 39 GHz licenses with a book value of approximately $300 that were previously acquired through FiberTower Corporation for vouchers to be applied against the winning bids and recorded a $900 gain in the first quarter of 2020. These vouchers yielded a value of approximately $1,200, which was applied toward our gross bids. In the second quarter of 2020, we made the final cash payment of $949, bringing the total cash payment to $1,186.

In December 2019, we acquired $982 of 24 GHz spectrum in an FCC auction.

HBO Latin America Group (HBO LAG) In May 2020, we acquired the remaining interest in HBO LAG for $141, net of cash acquired. At acquisition, we remeasured the fair value of the total business, which exceeded the carrying amount of our equity method investment and resulted in a pre-tax gain of $68. We consolidated that business upon close and recorded those assets at fair value, including $640 of trade names, $271 of distribution networks and $346 of goodwill that is reported in the WarnerMedia segment.

Dispositions

Video Business On July 31, 2021, we closed our transaction with TPG to form a new company named DIRECTV, which is jointly governed by a board with representation from both AT&T and TPG, with TPG having tie-breaking authority on certain key decisions, most significantly the appointment and removal of the CEO.

In connection with the transaction, we contributed our U.S. Video business unit to DIRECTV for $4,250 of junior preferred units, an additional distribution preference of $4,200 and a 70% economic interest in common units (collectively "equity considerations"). TPG contributed approximately $1,800 in cash to DIRECTV for $1,800 of senior preferred units and a 30% economic interest in common units. See Note 10 for additional information on our accounting for our investment in DIRECTV.

Upon close of the transaction in the third quarter, we received approximately $7,170 in cash from DIRECTV ($7,600, net of $430 cash on hand) and transferred $195 of DIRECTV debt. Approximately $1,800 of the cash received is reported as cash received from financing activities in our consolidated statement of cash flows, as it relates to a note payable to DIRECTV, for which payment is tied to our agreement to cover net losses under the remaining term of the NFL SUNDAY TICKET contract up to a cap of $2,100 over the remaining period of the contract. The remainder of the net proceeds is reported as cash from investing activities. This transaction did not result in a material gain or loss.

In the first quarter of 2021, we applied held-for-sale accounting treatment to the assets and liabilities of the U.S. video business, and, accordingly, included the assets in "Prepaid and other current assets," and the related liabilities in "Accounts payable and accrued liabilities," on our consolidated balance sheet, up until the close of the transaction. The held-for-sale classification also resulted in ceasing depreciation and amortization on the designated assets.

The assets and liabilities of the Video operations, transferred to DIRECTV upon close of the transaction, were as follows:

Current assets	$ 4,893
Property, plant and equipment – net	2,673
Licenses – net	5,798
Other intangible assets – net	1,634
Other assets	1,787
Total Video assets	$ 16,785
Current liabilities	$ 4,267
Long-term debt	206
Other noncurrent liabilities	343
Total Video liabilities	$ 4,816

Vrio On November 15, 2021, we completed the sale of our Latin America video operations, Vrio, to Grupo Werthein and recorded a note receivable of $610 to be paid over four years, of which $300 is in the form of seller financing and the remainder is related to working capital adjustments. In the second quarter of 2021, we classified the Vrio disposal group as held-for-sale and reported the disposal group at fair value less cost to sell, which resulted in a noncash, pre-tax impairment charge of $4,555, including approximately $2,100 related to accumulated foreign currency translation adjustments and $2,500 related to property, plant and equipment and intangible assets. Approximately $80 of the impairment was attributable to noncontrolling interest. The assets and liabilities removed from our consolidated balance sheet included $851 of Vrio held-for-sale assets primarily related to deferred customer contract acquisition and fulfillment costs, prepaids and other deferred charges, and $2,872 of related liabilities primarily for reserves associated with accumulated foreign currency translation adjustments, which reversed against accumulated other comprehensive income upon close of the transaction. This disposition did not result in a net material gain or loss. We continue to hold a 41.3% interest in SKY Mexico, a leading pay-TV provider in Mexico.

Otter Media During the third quarter of 2021, we disposed of substantially all of the assets of Otter Media. We received approximately $1,540 in cash and removed approximately $1,200 of goodwill associated with these assets. The dispositions did not result in a material gain or loss.

Playdemic Ltd. On September 20, 2021, we sold WarnerMedia's mobile games app studio, Playdemic Ltd. (Playdemic) for approximately $1,370 in cash and recognized a pre-tax gain of $706 in "Other income (expense) – net," on our consolidated statement of income. Approximately $600 of goodwill was removed related to this business. Playdemic was excluded from the pending WarnerMedia/Discovery transaction.

Central European Media Enterprises Ltd. (CME) On October 13, 2020, we completed the sale of our 65.3% interest in CME, a European broadcasting company, for approximately $1,100. This disposition did not result in a material gain or loss. Upon close, we received relief from a debt guarantee originally covering approximately $1,100 that was reduced to $600 at the time of the sale.

Operations in Puerto Rico On October 31, 2020, we completed the sale of our previously held-for-sale wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands for approximately $1,950 and recorded a pre-tax loss of $82. Upon sale we removed held-for-sale assets ("Prepaid and other current assets") and held-for-sale liabilities ("Accounts payable and accrued liabilities") that primarily consisted of FCC licenses (approximately $1,100), allocated goodwill (approximately $250), net property, plant and equipment (approximately $850) and net tax liabilities (approximately $500), previously reported on our consolidated balance sheets. The proceeds were used to redeem $1,950 of cumulative preferred interests in a subsidiary that held notes secured by the proceeds of this sale.

Hudson Yards In June 2019, we sold our ownership in Hudson Yards North Tower Holdings LLC under a sale-leaseback arrangement for cash proceeds of $2,081 and recorded a loss of approximately $100 resulting from transaction costs (primarily real estate transfer taxes).

Hulu In April 2019, we sold our ownership interest in Hulu for cash proceeds of $1,430 and recorded a pre-tax gain of $740.

Pending Dispositions

WarnerMedia On May 17, 2021, we entered into an agreement to combine our WarnerMedia segment, subject to certain exceptions, with a subsidiary of Discovery, Inc. (Discovery). The agreement is structured as a Reverse Morris Trust transaction, under which WarnerMedia will be distributed to AT&T's shareholders via a pro rata dividend, an exchange offer, or a combination of both, followed by its combination with Discovery. The transaction is expected to be tax-free to AT&T and AT&T's shareholders. AT&T will receive approximately $43,000 (subject to working capital and other adjustments) in a combination of cash, debt securities, and WarnerMedia's retention of certain debt. AT&T's shareholders will receive stock representing approximately 71% of the new company; Discovery shareholders will own approximately 29% of the new company.

On February 1, 2022, we announced that we will structure the distribution as a spin-off rather than an exchange offer. Upon closing of the transaction, each AT&T shareholder will receive, on a tax-free basis, an estimated 0.24 shares of the new company for each share of AT&T common stock held as of the record date for the pro rata distribution. The exact number of shares to be received by AT&T shareholders for each AT&T common share will be determined closer to the closing based on the number of shares of AT&T common stock outstanding and the number of shares of Discovery common stock outstanding on an as-converted and as-exercised basis. AT&T shareholders will continue to hold the same number of shares of AT&T common stock after the transaction closes.

The transaction is expected to close in the second quarter of 2022, subject to approval by Discovery shareholders and customary closing conditions, including receipt of regulatory approvals. No vote is required by AT&T shareholders. Upon close of the transaction, WarnerMedia will be deconsolidated.

The merger agreement contains certain customary termination rights for AT&T and Discovery, including, without limitation, a right for either party to terminate if the transaction is not completed on or before July 15, 2023. Termination fees under specified circumstances will require Discovery to pay AT&T $720 or AT&T to pay Discovery $1,770.

Magallanes, Inc. (Spinco), a subsidiary of AT&T, entered into a $41,500 commitment letter (Bridge Loan) on May 17, 2021. On June 4, 2021, Spinco entered into a $10,000 term loan credit agreement (Spinco Term Loan) and reduced the aggregate commitment amount under the Bridge Loan to $31,500. There have been no draws on the Bridge Loan or the Spinco Term Loan. In the event advances are made under the Bridge Loan or Spinco Term Loan, those advances will be used by Spinco to finance a portion of the cash distribution to AT&T in connection with the transaction.

Xandr On December 21, 2021, we entered into an agreement to sell the marketplace component of Xandr, primarily representing the AppNexus business, to Microsoft, which is expected to close in 2022, subject to customary regulatory approvals. This advertising business is included in our WarnerMedia segment and is excluded from the WarnerMedia/Discovery transaction. We applied held-for-sale accounting treatment to the related assets and liabilities of this business, resulting in approximately $550 of goodwill and other intangible assets being reclassified to "Prepaid and other current assets" as of December 31, 2021.

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

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

	Lives (years)	2021	2020
Land	–	**$ 2,458**	$ 2,571
Buildings and improvements	2-44	**39,306**	39,418
Central office equipment[1]	3-10	**97,069**	95,981
Cable, wiring and conduit	15-50	**79,961**	75,409
Satellites	14-17	**103**	908
Other equipment	3-20	**86,830**	90,883
Software	3-7	**17,916**	18,482
Under construction	–	**5,845**	4,099
		329,488	327,751
Accumulated depreciation and amortization		**203,584**	200,436
Property, plant and equipment – net		**$125,904**	$ 127,315

[1] Includes certain network software.

Our depreciation expense was $18,629 in 2021, $20,504 in 2020, and $20,758 in 2019. Depreciation expense included amortization of software totaling $3,021 in 2021, $3,483 in 2020 and $3,313 in 2019.

In December 2020, we reassessed our grouping of long-lived assets and identified certain impairment indicators, requiring us to evaluate the recoverability of the long-lived assets of our former video business. Based on this evaluation, we determined that these assets were not fully recoverable and recognized pre-tax impairment charges totaling $7,255, of which $1,681 relates to property, plant and equipment, including satellites. The reduced carrying amounts of the impaired assets became their new cost basis.

In 2019, we recorded a noncash pre-tax charge of $1,290 to abandon copper assets that we no longer expect will be utilized to support future network activity. The abandonment was considered outside the ordinary course of business.

NOTE 8. LEASES

We have operating and finance leases for certain facilities and equipment used in our operations. Our leases generally have remaining lease terms of up to 15 years. Some of our real estate operating leases contain renewal options that may be exercised, and some of our leases include options to terminate the leases within one year.

We have recognized a right-of-use asset for both operating and finance leases, and a corresponding lease liability that represents the present value of our obligation to make payments over the lease term. The present value of the lease payments is calculated using the incremental borrowing rate for operating and finance leases, which was determined using a portfolio approach based on the rate of interest that we would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term. We use the unsecured borrowing rate and risk-adjust that rate to approximate a collateralized rate in the currency of the lease, which will be updated on a quarterly basis for measurement of new lease liabilities.

The components of lease expense were as follows:

	2021	2020	2019
Operating lease cost	**$ 5,793**	$ 5,896	$ 5,684
Finance lease cost:			
Amortization of right-of-use assets	**$ 256**	$ 287	$ 271
Interest on lease obligation	**162**	156	169
Total finance lease cost	**$ 418**	$ 443	$ 440

The following table provides supplemental cash flows information related to leases:

	2021	2020	2019
Cash Flows from Operating Activities			
Cash paid for amounts included in lease obligations:			
Operating cash flows from operating leases	**$ 5,012**	$ 4,852	$ 4,583
Supplemental Lease Cash Flow Disclosures			
Operating lease right-of-use assets obtained in exchange for new operating lease obligations	**$ 4,581**	$ 5,270	$ 7,818

The following tables set forth supplemental balance sheet information related to leases at December 31:

	2021	2020
Operating Leases		
Operating lease right-of-use assets	**$ 24,180**	$ 24,714
Accounts payable and accrued liabilities	**$ 3,706**	$ 3,537
Operating lease obligation	**21,261**	22,202
Total operating lease obligation	**$ 24,967**	$ 25,739
Finance Leases		
Property, plant and equipment, at cost	**$ 2,609**	$ 3,586
Accumulated depreciation and amortization	**(1,120)**	(1,361)
Property, plant and equipment – net	**$ 1,489**	$ 2,225
Current portion of long-term debt	**$ 137**	$ 189
Long-term debt	**1,484**	1,847
Total finance lease obligation	**$ 1,621**	$ 2,036

	2021	2020
Weighted-Average Remaining Lease Term (years)		
Operating leases	**8.4**	8.5
Finance leases	**8.4**	9.9
Weighted-Average Discount Rate		
Operating leases	**3.7 %**	4.1 %
Finance leases	**7.8 %**	8.1 %

The following table provides the expected future minimum maturities of lease obligations:

At December 31, 2021	Operating Leases	Finance Leases
2022	**$ 4,922**	$ 299
2023	**4,502**	283
2024	**3,970**	257
2025	**3,232**	246
2026	**2,540**	243
Thereafter	**10,686**	1,068
Total lease payments	**29,852**	2,396
Less: imputed interest	**(4,885)**	(775)
Total	**$ 24,967**	$ 1,621

NOTE 9. GOODWILL AND OTHER INTANGIBLE ASSETS

We test goodwill for impairment at a reporting unit level, which is deemed to be our principal operating segments or one level below. With our annual impairment testing as of October 1, 2021, the calculated fair values of the reporting units exceeded their book values in all circumstances; however, the WarnerMedia fair value exceeded its book value by less than 10%, with industry trends and our content distribution strategy affecting fair value.

Effective January 1, 2021, we updated our reporting units to reflect recent changes in how WarnerMedia, an integrated content organization that distributes across various platforms, is managed and evaluated. With this operational change, the reporting unit is deemed to be the operating segment. The previous reporting units, Turner, Home Box Office, Warner Bros., and Xandr, and the new WarnerMedia reporting unit were tested for goodwill impairment on January 1, 2021, for which no impairment was identified.

Changes to our goodwill in 2021 primarily resulted from the following transactions (see Note 6):

- The agreement to sell our marketplace component of Xandr, our advertising business within the WarnerMedia segment. Approximately $400 of goodwill was allocated to the business and classified as held-for-sale.
- Our disposition of substantially all the assets of Otter Media and removal of $885 of associated goodwill.
- Our sale of WarnerMedia's mobile games app studio, Playdemic and removal of $600 of associated goodwill.

Other changes to our goodwill in 2021 primarily resulted from the sale of our Government Solutions business and foreign currency translation.

In December 2020, we changed our management strategy and reevaluated our former domestic video business, allowing us to maximize value in our former domestic video business and further accelerate our ability to innovate and execute in our fast-growing broadband and fiber business. The strategy change required us to reassess the grouping and recoverability of the former video business long-lived assets. In conjunction with the strategy change, we separated the former Entertainment Group reporting unit into two reporting units, Video and Consumer Wireline, which includes legacy telephony operations. Our recoverability assessment resulted in $7,255 of long-lived asset impairment in the former video business, including $4,373 for orbital slots and $1,201 for customer lists. The change in reporting units required the historical Entertainment Group goodwill to be assigned to the separate Video and Consumer Wireline reporting units, for which we used the relative fair value allocation methodology. The affected reporting units were then tested for goodwill impairment. We recorded an impairment of the entire $8,253 of goodwill allocated to the Video reporting unit. No goodwill impairment was required in the Consumer Wireline reporting unit. We closed our transaction with TPG and deconsolidated Video in the third quarter of 2021 (see Note 6).

In the second quarter of 2020, driven by significant and adverse economic and political environments in Latin America, including the impact of COVID-19, we experienced accelerated subscriber losses and revenue decline in the region, as well as closure of our operations in Venezuela. When combining these business trends and higher weighted-average cost of capital resulting from the increase in country-risk premiums in the region, we concluded that it was more likely than not that the fair value of the Vrio reporting unit, estimated using discounted cash flow and market multiple approaches, was less than its carrying amount. We recorded a $2,212 goodwill impairment in the Vrio reporting unit, with $105 attributable to noncontrolling interest. Vrio was sold in the fourth quarter of 2021 (see Note 6).

Other changes to our goodwill in 2020 resulted from foreign currency translation, the held-for-sale treatment of Crunchyroll and our acquisition of the remaining interest in HBO LAG (see Note 6). In 2020, Xandr was combined with our WarnerMedia segment.

At December 31, 2021, our Communications segment has three reporting units: Mobility, Business Wireline and Consumer Wireline. The reporting unit is deemed to be the operating segment for WarnerMedia and Latin America.

The following table sets forth the changes in the carrying amounts of goodwill by operating segment:

	2021			2020				
	Balance at Jan. 1	**Dispositions, currency exchange and other**	**Balance at Dec. 31**	Balance at Jan. 1	Acquisitions	Impairments	Dispositions, currency exchange and other	Balance at Dec. 31
Communications	**$ 91,976**	**$ (76)**	**$ 91,900**	$ 100,234	$ —	$ (8,253)	$ (5)	$ 91,976
WarnerMedia	**42,447**	**(1,940)**	**40,507**	42,345	415	—	(313)	42,447
Latin America	**836**	**(20)**	**816**	3,662	—	(2,212)	(614)	836
Total	**$ 135,259**	**$ (2,036)**	**$ 133,223**	$ 146,241	$ 415	$ (10,465)	$ (932)	$ 135,259

We review amortizing intangible assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group, including the video business previously discussed.

In 2021, as a result of the separation of our U.S. video business (see Note 6), we removed $5,798 of orbital slot licenses and $1,585 of customer lists that were transferred to DIRECTV. As a result of the transaction to sell our Latin America video operations (see Note 6), we classified the Vrio disposal group as held-for-sale and reported the disposal group at fair value less cost to sell, which resulted in the impairment of certain intangibles related to this business, including $241 for customer lists, $632 for trade names and $89 for amortizable wireless licenses. Indefinite-lived wireless licenses increased in 2021 due to recent auction activity (see Note 6).

In 2020, we changed the estimated lives of our orbital slot licenses from indefinite to finite-lived and began amortizing them over their average remaining economic life of 15 years (see Note 1).

Our other intangible assets at December 31 are summarized as follows:

	2021				2020		
Other Intangible Assets	Weighted-Average Life	**Gross Carrying Amount**	**Accumulated Amortization**	**Currency Translation Adjustment**	Gross Carrying Amount	Accumulated Amortization	Currency Translation Adjustment
Amortized intangible assets:							
Wireless licenses	21.6 years	**$ 3,083**	**$ 307**	**$ (440)**	$ 2,979	$ 271	$ (421)
Orbital slots	N/A	**—**	**—**	**—**	5,825	—	—
Trademarks and trade names	38.3 years	**18,781**	**2,077**	**(7)**	20,016	1,518	(442)
Distribution network	10.0 years	**18,399**	**6,457**	**—**	18,414	4,621	—
Released television and film content	17.8 years	**10,939**	**6,978**	**—**	10,940	6,240	—
Customer lists and relationships	11.2 years	**637**	**483**	**(98)**	4,100	1,645	(460)
Other	22.3 years	**10,987**	**3,221**	**—**	11,311	2,615	(5)
Total	24.6 years	**$ 62,826**	**$ 19,523**	**$ (545)**	$ 73,585	$ 16,910	$ (1,328)

Indefinite-lived intangible assets not subject to amortization:

Wireless licenses	**$ 111,494**	$ 85,728
Trade names	**5,241**	5,241
Total	**$ 116,735**	$ 90,969

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. Amortization expense for definite-life intangible assets in 2021 reflected the separation of our U.S. video and Vrio businesses and was $4,288 for the year ended December 31, 2021, $8,239 for the year ended December 31, 2020 and $7,932 for the year ended December 31, 2019.

Estimated amortization expense for the next five years is as follows:

Year	AT&T Inc.	Attributable to WarnerMedia[1]
2022	$ 3,907	$ 3,747
2023	3,895	3,741
2024	3,524	3,377
2025	3,394	3,258
2026	3,309	3,174

[1] The pending WarnerMedia/Discovery transaction is expected to close in the second quarter of 2022, subject to approval by Discovery shareholders and customary closing conditions. (See Note 6)

NOTE 10. 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.

On July 31, 2021, we closed our transaction with TPG to form a new company named DIRECTV (see Note 6). The transaction resulted in our deconsolidation of the Video Business, with DIRECTV being accounted for under the equity method beginning August 1, 2021.

In May 2020, we acquired the remaining interest in HBO LAG and fully consolidated that entity. In October 2020, we sold our ownership interest in CME. (See Note 6)

In 2019, we sold our investments in Hudson Yards and Hulu. (See Note 6)

Our investments in equity affiliates at December 31, 2021 primarily included our interests in DIRECTV, SKY Mexico and The CW Network.

DIRECTV We account for our investment in DIRECTV under the equity method of accounting. DIRECTV is considered a variable interest entity for accounting purposes. As DIRECTV is jointly governed by a board with representation from both AT&T and TPG, with TPG having tie-breaking authority on certain key decisions, most significantly the appointment and removal of the CEO, we have concluded that we are not the primary beneficiary of DIRECTV.

The ownership interests in DIRECTV, based on seniority are as follows:

- Preferred units with distribution rights of $1,800 held by TPG, which were fully distributed by December 31, 2021.
- Junior preferred units with distribution rights of $4,250 held by AT&T, of which $3,212 of distribution rights remain as of December 31, 2021.
- Distribution preference associated with Common units of $4,200 held by AT&T.
- Common units, with 70% held by AT&T and 30% held by TPG.

The initial fair value of the equity considerations on July 31, 2021 was $6,852, which was determined using a discounted cash flow model reflecting distribution rights and preference of the individual instruments. During 2021, we recognized $619 of equity in net income of affiliates and received total distributions of $1,942 from DIRECTV. The book value of our investment in DIRECTV at December 31, 2021 was $5,539.

Our share of net income or loss may differ from the stated ownership percentage interest of DIRECTV as the terms of the arrangement prescribe substantive non-proportionate cash distributions, both from operations and in liquidation, that are based on classes of interests held by investors. In the event that DIRECTV records a loss, that loss will be allocated to ownership interests based on their seniority, beginning with the most subordinated interests.

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

The CW Network (The CW) We hold a 50.0% interest in The CW, which is an advertising supported broadcasting and licensing joint venture between Warner Bros. and CBS Corporation.

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

	2021	2020
Beginning of year	**$ 1,780**	$ 3,695
Additional investments	**265**	178
Receipt of equity interest in DIRECTV	**6,852**	—
Distributions from DIRECTV in excess of cumulative equity in earnings	**(1,323)**	—
Other capital distributions	**(26)**	(22)
Dividends and distributions of cumulative earnings received	**(815)**	(133)
Equity in net income of affiliates	**631**	95
Acquisition of remaining interest in HBO LAG	**—**	(1,141)
Disposition of CME	**—**	(749)
Impairments	**—**	(146)
Disposition of various investments	**(68)**	—
Currency translation adjustments	**(16)**	(10)
Other adjustments	**(6)**	13
End of year	**$ 7,274**	$ 1,780

NOTE 11. INVENTORIES AND THEATRICAL FILM AND TELEVISION PRODUCTION COSTS

Film and television production costs are stated at the lower of cost, less accumulated amortization, or fair value and include the unamortized cost of completed theatrical films and television episodes, theatrical films and television series in production and undeveloped film and television rights. The amount of capitalized film and television production costs recognized as broadcast, programming and operations expenses for a given period is determined using the film forecast computation method.

In the fourth quarter of 2020, we recognized an impairment of $524 based on a change in these estimates for various film titles. This change in estimates was driven by the continued shutdown of theaters during the pandemic, including the resurgence of an outbreak in the fourth quarter and the impact of our decision to release our 2021 movies in theaters and on HBO Max at the same time.

The following table summarizes inventories and theatrical film and television production costs as of December 31:

	2021	2020
Inventories:		
Programming costs, less amortization[1]	**$ 7,101**	$ 6,010
Other inventory, primarily DVD and Blu-ray Discs	**134**	103
Total inventories	**7,235**	6,113
Less: current portion of inventory	**(134)**	(103)
Total noncurrent inventories	**7,101**	6,010
Theatrical film production costs:[2]		
Released, less amortization	**525**	487
Completed and not released	**343**	616
In production	**1,687**	1,130
Development and pre-production	**143**	190
Television production costs:[2]		
Released, less amortization	**3,335**	2,495
Completed and not released	**1,350**	1,381
In production	**4,376**	2,353
Development and pre-production	**123**	90
Total theatrical film and television production costs	**11,882**	8,742
Total noncurrent inventories and theatrical film and television production costs	**$ 18,983**	$ 14,752

[1] Includes the costs of certain programming rights, primarily sports, for which payments have been made prior to the related rights being received.
[2] Does not include $3,961 and $4,699 of acquired film and television library intangible assets as of December 31, 2021 and 2020, respectively, which are included in "Other Intangible Assets – Net" on our consolidated balance sheets.

Approximately 89% of unamortized film costs for released theatrical and television content are expected to be amortized within three years from December 31, 2021. In addition, approximately $3,464 of the film costs of released and completed and not released theatrical and television product are expected to be amortized during 2022.

NOTE 12. DEBT

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

		2021	2020
Notes and debentures			
Rates	Maturities[1]		
0.69% – 2.99%	2021 – 2039	**$ 31,841**	$ 25,549
3.00% – 4.99%	2021 – 2061	**108,003**	110,317
5.00% – 6.99%	2021 – 2095	**23,360**	24,259
7.00% – 9.15%	2021 – 2097	**5,645**	5,006
Credit agreement borrowings		**10,400**	300
Fair value of interest rate swaps recorded in debt		**16**	20
		179,265	165,451
Unamortized (discount) premium – net		**(9,610)**	(9,710)
Unamortized issuance costs		**(508)**	(532)
Total notes and debentures		**169,147**	155,209
Finance lease obligations		**1,621**	2,036
Total long-term debt, including current maturities		**170,768**	157,245
Current maturities of long-term debt		**(7,944)**	(3,470)
Current maturities of credit agreement borrowings		**(10,100)**	—
Total long-term debt		**$ 152,724**	$ 153,775

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

We had outstanding Euro, British pound sterling, Canadian dollar, Mexican peso, Australian dollar, and Swiss franc denominated debt of approximately $41,249 and $43,399 at December 31, 2021 and 2020, respectively.

The weighted-average interest rate of our long-term debt portfolio, including, credit agreement borrowings and the impact of derivatives, was approximately 3.8% as of December 31, 2021 and 4.1% as of December 31, 2020.

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

	2021	2020
Current maturities of long-term debt	**$ 7,944**	$ 3,470
Commercial paper	**6,586**	—
Credit agreement borrowings	**10,100**	—
Total	**$ 24,630**	$ 3,470

Financing Activities

During 2021, we received net proceeds of $8,931 on the issuance of $8,949 in long-term debt and proceeds of $10,100 on the issuance of credit agreement borrowings in various markets, with an average weighted maturity of approximately 2.3 years and a weighted average interest rate of 1.4%. We repaid $2,904 in borrowings of various notes with a weighted average coupon of 3.5%. Our debt activity during 2021 primarily consisted of the following:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year 2021
Net commercial paper borrowings[1]	$ 7,072	$ (513)	$ (2)	$ 4	$ 6,561
Issuance of Notes and Debentures[2]:					
U.S. dollar denominated global notes	$ 6,000	$ —	$ —	$ —	$ 6,000
Initial average rate of 1.27%					
Euro denominated global notes (converted to USD at issuance)	1,461	—	—	—	1,461
Rate of 0.00%					
2021 Syndicated Term Loan	7,350	—	—	—	7,350
BAML Bilateral Term Loan	2,000	—	—	—	2,000
Private financing	750	—	—	—	750
Other	636	—	835	—	1,471
Debt Issuances	$ 18,197	$ —	$ 835	$ —	$ 19,032
Repayments:					
Private financing	$ (649)	$ —	$ —	$ —	$ (649)
2.650% Euro denominated global notes due 2021	—	—	—	(1,349)	(1,349)
Other	(253)	(253)	(498)	(140)	(1,144)
Repayments of long-term debt	$ (902)	$ (253)	$ (498)	$ (1,489)	$ (3,142)

[1] Includes $1,316 net issuance of commercial paper with original maturities of three months or less, $12,755 of commercial paper issued greater than 90 days and $7,510 of commercial paper repaid greater than 90 days.
[2] Includes credit agreement borrowing.

Tender Offers and Debt Exchanges

In August 2020, we repurchased $11,384 of AT&T global notes and subsidiary notes due 2021 to 2025 through cash tender offers.

In September 2020, we exchanged $17,677 of AT&T and subsidiary notes, with interest rates ranging from 4.350% to 8.750% and original maturities ranging from 2031 to 2058 for $1,459 of cash and $21,500 of three new series of AT&T Inc. global notes, with interest rates ranging from 3.500% to 3.650% and maturities ranging from 2053 to 2059.

In December 2020, we also exchanged $8,280 of AT&T and subsidiary notes, with interest rates ranging from 2.950% to 7.125% and original maturities ranging from 2026 to 2048 for $8 of cash and $9,678 of two new series of AT&T global notes, with interest rates of 2.550% and 3.800% and maturities of 2033 and 2057, respectively.

As of December 31, 2021 and 2020, 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, 2021, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

	2022	2023	2024	2025	2026	There-after
Debt repayments[1]	$18,185	$7,739	$11,562	$6,484	$10,557	$126,922
Weighted-average interest rate[2]	1.9 %	3.4 %	2.9 %	3.9 %	3.3 %	4.2 %

[1] Debt repayments represent maturity value and assume puttable debt is redeemed at the next opportunity. Foreign debt includes the impact from hedges, when applicable. Includes credit agreement borrowings.
[2] Includes credit agreement borrowings.

Credit Facilities

General

In April 2020, we entered into and drew on a $5,500 Term Loan Credit Agreement (Term Loan) with 11 commercial banks and Bank of America, N.A. as lead agent. We repaid and terminated the Term Loan in May 2020.

On January 29, 2021, we entered into a $14,700 Term Loan Credit Agreement (2021 Syndicated Term Loan), with Bank of America, N.A., as agent. On March 23, 2021, we borrowed $7,350 under the 2021 Syndicated Term Loan, and the remaining $7,350 of lenders' commitments was terminated. As of December 31, 2021, $7,350 was outstanding and is due on March 22, 2022.

In March 2021, we entered into and drew on a $2,000 term loan credit agreement (BAML Bilateral Term Loan) consisting of (i) a $1,000 facility originally due December 31, 2021 (BAML Tranche A Facility) and subsequently extended to December 31, 2022 in the fourth quarter of 2021, and (ii) a $1,000 facility due December 31, 2022 (BAML Tranche B Facility), with Bank of America, N.A., as agent. At December 31, 2021, $2,000 was outstanding under these facilities.

Revolving Credit Agreements

In November 2020, we amended one of our $7,500 revolving credit agreements by extending the termination date. In total, we have two $7,500 revolving credit agreements, totaling $15,000, with one terminating on December 11, 2023 and the other terminating on November 17, 2025. No amounts were outstanding under either agreement as of December 31, 2021.

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 through June 30, 2023, a ratio of not more than 4.0-to-1, and a ratio of not more than 3.5-to-1 for any fiscal quarter thereafter. As of December 31, 2021, we were in compliance with the covenants for our credit facilities.

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.

The obligations of the lenders under two revolving credit agreements to provide advances will terminate on December 11, 2023, and November 17, 2025, unless the commitments are terminated in whole prior to that date. All advances must be repaid no later than the date on which lenders are no longer obligated to make any advances under the applicable credit agreement.

Each of the credit agreements provides that we and lenders representing more than 50% of the facility amount may agree to extend their commitments under such Credit Agreement for two one-year periods beyond the initial termination date. We have the right to terminate, in whole or in part, amounts committed by the lenders under each of the credit agreements in excess of any outstanding advances; however, any such terminated commitments may not be reinstated.

Advances under these agreements would bear interest, at our option, either:

- at a variable annual rate equal to: (1) the highest of (but not less than zero) (a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate, (b) 0.5% per annum above the federal funds rate, and (c) the London interbank offered rate (or the successor thereto) ("LIBOR") applicable to dollars for a period of one month plus 1.00%, plus (2) an applicable margin, as set forth in the applicable Credit Agreement (the "Applicable Margin for Base Advances"); 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 applicable Credit Agreement (the "Applicable Margin for Eurodollar Rate Advances").

We pay a facility fee of 0.070%, 0.080%, 0.100% or 0.125% per annum of the amount of the lender commitments, depending on AT&T's credit rating.

NOTE 13. FAIR VALUE MEASUREMENTS AND DISCLOSURE

The Fair Value Measurement and Disclosure framework in ASC 820, "Fair Value Measurement," provides a three-tiered fair value hierarchy based on the reliability of the inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs and Level 3 includes fair values estimated using significant unobservable inputs.

The 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, 2020.

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, 2021		December 31, 2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Notes and debentures[1]	**$ 169,147**	**$ 194,891**	$ 155,209	$ 187,224
Commercial paper	**6,586**	**6,586**	—	—
Investment securities[2]	**3,374**	**3,374**	3,249	3,249

[1] Includes credit agreement borrowings. Excludes note payable to DIRECTV.
[2] Excludes investments accounted for under the equity method.

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

Following is the fair value leveling for investment securities that are measured at fair value and derivatives as of December 31, 2021 and December 31, 2020. Derivatives designated as hedging instruments are reflected as "Other assets," "Other noncurrent liabilities," "Prepaid and other current assets" and "Accounts payable and accrued liabilities" on our consolidated balance sheets.

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Equity Securities				
Domestic equities	**$ 1,256**	**$ —**	**$ —**	**$ 1,256**
International equities	**227**	**—**	**—**	**227**
Fixed income equities	**230**	**—**	**—**	**230**
Available-for-Sale Debt Securities	**—**	**1,384**	**—**	**1,384**
Asset Derivatives				
Cross-currency swaps	**—**	**211**	**—**	**211**
Foreign exchange contracts	**—**	**8**	**—**	**8**
Liability Derivatives				
Cross-currency swaps	**—**	**(3,170)**	**—**	**(3,170)**
Foreign exchange contracts	**—**	**(41)**	**—**	**(41)**

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Equity Securities				
Domestic equities	$ 1,010	$ —	$ —	$ 1,010
International equities	180	—	—	180
Fixed income equities	236	—	—	236
Available-for-Sale Debt Securities	—	1,479	—	1,479
Asset Derivatives				
Cross-currency swaps	—	1,721	—	1,721
Foreign exchange contracts	—	6	—	6
Liability Derivatives				
Cross-currency swaps	—	(1,814)	—	(1,814)
Foreign exchange contracts	—	(9)	—	(9)

Investment Securities

Our investment securities include both equity and debt securities that are measured at fair value, as well as equity securities without readily determinable fair values. A substantial portion of the fair values of our investment securities is estimated based on quoted market prices. Investments in equity securities not traded on a national securities exchange are valued at cost, less any impairment, and adjusted for changes resulting from observable, orderly transactions for identical or similar securities. Investments in debt securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

The components comprising total gains and losses in the period on equity securities are as follows:

For the years ended December 31,	**2021**	2020	2019
Total gains (losses) recognized on equity securities	**$ 293**	$ 171	$ 301
Gains (Losses) recognized on equity securities sold	**(5)**	(25)	100
Unrealized gains (losses) recognized on equity securities held at end of period	**$ 298**	$ 196	$ 201

At December 31, 2021, available-for-sale debt securities totaling $1,384 have maturities as follows - less than one year: $41; one to three years: $171; three to five years: $179; five or more years: $993.

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 "Prepaid and 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 Periodically, we enter into and designate 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.

We also designate some of our cross-currency swaps as fair value hedges. The purpose of these contracts is to hedge foreign currency risk associated with changes in spot rates on foreign denominated debt. For these hedges we have elected to exclude the change in fair value of the cross-currency swap related to both time value and cross-currency basis spread from the assessment of hedge effectiveness.

Unrealized and realized gains or losses from fair value hedges impact the same category on the consolidated statements of income as the item being hedged, including the earnings impact of excluded components. In instances where we have elected to exclude components from the assessment of hedge effectiveness related to fair value hedges, unrealized gains or losses on such excluded components are recorded as a component of accumulated OCI and recognized into earnings through the swap accrual over the life of the hedging instrument. Unrealized gains on derivatives designated as fair value hedges are recorded at fair value as assets, and unrealized losses are recorded at fair value as liabilities. Except for excluded components, changes in the fair value of derivative instruments designated as fair value hedges are offset against the change in fair value of the hedged assets or liabilities through earnings. In the years ended December 31, 2021 and 2020, no ineffectiveness was measured on fair value hedges.

Cash Flow Hedging We designate most of 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 our foreign-denominated debt. These agreements include initial and final exchanges of principal from fixed foreign currency denominated amounts 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 currency-denominated interest rate to a fixed U.S. dollar denominated interest rate.

We also designate some of our foreign exchange contracts as cash flow hedges. The purpose of these contracts is to hedge certain forecasted film production costs and film tax incentives denominated in foreign currencies.

Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses are recorded at fair value as liabilities. For derivative instruments designated as cash flow hedges, changes in fair value are reported as a component of accumulated OCI and are reclassified into the consolidated statements of income in the same period the hedged transaction affects earnings.

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. Over the next 12 months, we expect to reclassify $73 from accumulated OCI to "Interest expense" due to the amortization of net losses on historical interest rate locks.

Net Investment Hedging We have designated €1,450 million aggregate principal amount of debt as a hedge of the variability of some of the Euro-denominated net investments of our subsidiaries. The gain or loss on the debt that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation is recorded as a currency translation adjustment within accumulated OCI, net on the consolidated balance sheets. Net gains on net investment hedges recognized in accumulated OCI for 2021 were $122.

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, 2021, we had posted collateral of $135 (a deposit asset) and held collateral of $7 (a receipt liability). Under the agreements, if AT&T's credit rating had been downgraded two ratings levels by Fitch Ratings, one level by S&P and one level by Moody's, before the final collateral exchange in December, we would have been required to post additional collateral of $36. If AT&T's credit rating had been downgraded three ratings levels by Fitch Ratings, two levels by S&P, and two levels by Moody's, we would have been required to post additional collateral of $2,816. At December 31, 2020, we had posted collateral of $53 (a deposit asset) and held collateral of $694 (a receipt liability). We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) exists, against the fair value of the derivative instruments.

Following are the notional amounts of our outstanding derivative positions at December 31:

		2021		2020
Cross-currency swaps	**$**	**40,737**	$	40,745
Foreign exchange contracts		**30**		90
Total	**$**	**40,767**	$	40,835

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,		**2021**		2020		2019
Interest rate swaps (Interest expense):						
Gain (Loss) on interest rate swaps	**$**	**(4)**	$	(6)	$	58
Gain (Loss) on long-term debt		**4**		6		(58)
Cross-currency swaps:						
Gain (Loss) on cross-currency swaps		**(91)**		—		—
Gain (Loss) on long-term debt		**91**		—		—
Gain (Loss) recognized in accumulated OCI		**(17)**		—		—

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

Cash Flow Hedging Relationships For the years ended December 31,		**2021**		2020		2019
Cross-currency swaps:						
Gain (Loss) recognized in accumulated OCI	**$**	**(873)**	$	(378)	$	(1,066)
Foreign exchange contracts:						
Gain (Loss) recognized in accumulated OCI		**(17)**		3		10
Other income (expense) – net reclassified from accumulated OCI into income		**1**		(3)		6
Interest rate locks:						
Gain (Loss) recognized in accumulated OCI		**—**		(648)		(84)
Interest income (expense) reclassified from accumulated OCI into income		**(92)**		(84)		(63)

Nonrecurring Fair Value Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, impairment indicators may subject goodwill, long-lived assets and film costs to nonrecurring fair value measurements. The implied fair values of the U.S. video and Vrio businesses were estimated using both the discounted cash flow as well as market multiple approaches. The fair values of long-lived assets in the U.S. video business were determined using a present value approach of probability-weighted expected cash flows. The fair values of film productions were estimated using a discounted cash flow approach. The inputs to all of these approaches are considered Level 3.

Our nonrecurring fair value measurements also include the valuation of our initial investment in DIRECTV at July 31, 2021 (see Note 10). This nonrecurring fair value measurement was estimated using a discounted cash flow approach. The inputs to these models are considered Level 3.

During 2020, goodwill amounts related to the Video and Vrio reporting units were fully impaired. At December 31, 2020, nonrecurring fair value measurements in our Video business unit totaled $9,744 and were comprised of $5,873 for orbital slots, $1,613 for customer lists and $2,258 for property, plant and equipment (see Notes 7 and 9). Nonrecurring fair value measurements for film costs within our WarnerMedia segment totaled $844 (see Note 11).

NOTE 14. INCOME TAXES

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

	2021	2020
Depreciation and amortization	**$ 47,433**	$ 46,952
Licenses and nonamortizable intangibles	**15,576**	13,930
Employee benefits	**(3,338)**	(5,279)
Deferred fulfillment costs	**1,797**	2,691
Equity in partnership	**3,285**	—
Net operating loss and other carryforwards	**(6,703)**	(7,355)
Other – net	**2,308**	4,562
Subtotal	**60,358**	55,501
Deferred tax assets valuation allowance	**4,638**	4,773
Net deferred tax liabilities	**$64,996**	$ 60,274
Noncurrent deferred tax liabilities	**$ 65,226**	$ 60,472
Less: Noncurrent deferred tax assets	**(230)**	(198)
Net deferred tax liabilities	**$64,996**	$ 60,274

At December 31, 2021, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of $452, state of $1,012 and foreign of $2,709, expiring through 2041. Additionally, we had federal credit carryforwards of $604 and state credit carryforwards of $1,926, expiring primarily through 2041.

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, 2021 and 2020 related primarily to state and foreign net operating losses and state credit carryforwards.

We consider post-1986 unremitted foreign earnings subjected to the one-time transition tax not to be indefinitely reinvested as such earnings can be repatriated without any significant incremental tax costs. We consider other types of unremitted foreign earnings to be indefinitely reinvested. U.S. income and foreign withholding taxes have not been recorded on temporary differences related to investments in certain foreign subsidiaries as such differences are considered indefinitely reinvested. Determination of the amount of unrecognized deferred tax liability is not practicable.

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 2021 and 2020 is as follows:

Federal, State and Foreign Tax	**2021**	2020
Balance at beginning of year	**$ 10,001**	$ 10,979
Increases for tax positions related to the current year	**677**	1,580
Increases for tax positions related to prior years	**443**	112
Decreases for tax positions related to prior years	**(1,344)**	(994)
Lapse of statute of limitations	**(29)**	(24)
Settlements	**(342)**	(1,646)
Current year dispositions	**(4)**	—
Foreign currency effects	**—**	(6)
Balance at end of year	**9,402**	10,001
Accrued interest and penalties	**2,221**	2,450
Gross unrecognized income tax benefits	**11,623**	12,451
Less: Deferred federal and state income tax benefits	**(799)**	(878)
Less: Tax attributable to timing items included above	**(3,515)**	(3,588)
Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year	**$ 7,309**	$ 7,985

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 $377 at December 31, 2021 and $702 at December 31, 2020.

Accrued interest and penalties included in UTBs were $2,221 as of December 31, 2021 and $2,450 as of December 31, 2020. We record interest and penalties

related to federal, state and foreign UTBs in income tax expense. The net interest and penalty expense (benefit) included in income tax expense was $(155) for 2021, $149 for 2020 and $267 for 2019.

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 2012. All audit periods prior to 2005 are closed for federal examination purposes and we have effectively resolved all outstanding audit issues for years through 2010 with the IRS Appeals Division. Those years will be closed as the final paperwork is processed in the coming months.

While we do not expect material changes, we are generally unable to estimate the range of impacts on the balance of the remaining uncertain tax positions or the impact on the effective tax rate from the resolution of these issues until each year is closed; and it is possible that the amount of unrecognized benefit with respect to our uncertain tax positions could increase or decrease within the next 12 months.

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

	2021	2020	2019
Federal:			
Current	**$ (1,198)**	$ (687)	$ 584
Deferred	**5,296**	1,039	1,656
	4,098	352	2,240
State and local:			
Current	**646**	(6)	603
Deferred	**456**	263	144
	1,102	257	747
Foreign:			
Current	**516**	413	605
Deferred	**(248)**	(57)	(99)
	268	356	506
Total	**$ 5,468**	$ 965	$ 3,493

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

	2021	2020	2019
U.S. income (loss) before income taxes	**$ 30,223**	$ (452)	$ 18,301
Foreign income (loss) before income taxes	**(3,276)**	(2,404)	167
Total	**$ 26,947**	$ (2,856)	$ 18,468

A reconciliation of income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate of 21% to income from continuing operations before income taxes is as follows:

	2021	2020	2019
Taxes computed at federal statutory rate	**$ 5,659**	$ (600)	$ 3,878
Increases (decreases) in income taxes resulting from:			
State and local income taxes – net of federal income tax benefit	**967**	193	611
CARES Act federal NOL carryback	**(471)**	—	—
Tax on foreign investments	**(68)**	(141)	(115)
Noncontrolling interest	**(294)**	(285)	(230)
Permanent items and R&D credit	**(163)**	(239)	(285)
Audit resolutions	**(298)**	(112)	(156)
Divestitures	**(112)**	107	—
Goodwill impairment[1]	**250**	2,120	—
Other – net	**(2)**	(78)	(210)
Total	**$ 5,468**	$ 965	$ 3,493
Effective Tax Rate	**20.3 %**	(33.8)%	18.9 %

[1] Goodwill impairments are not deductible for tax purposes.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted, which allows for a Net Operating Loss (NOL) generated in 2020 to be carried back to a year with a federal rate of 35%. During 2021, we recorded a $471 tax benefit for the rate impact of the 2020 NOL carryback adjusted for the domestic manufacturing deduction limitation in the carryback year and applicable unrecognized tax benefits.

AT&T is subject to the Global Intangible Low Taxed Income (GILTI) provisions created under the Tax Cuts and Jobs Act of 2017. We report the tax impact of GILTI as a period cost when incurred.

NOTE 15. PENSION AND POSTRETIREMENT BENEFITS

We offer noncontributory pension programs covering the majority of domestic nonmanagement employees in our Communications business. 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 employees can elect to receive their pension benefits in either a lump sum payment or an annuity.

Pension programs covering U.S. management employees are closed to new entrants. These programs continue to provide benefits to participants that were generally hired before January 1, 2015, who receive benefits under either cash 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).

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.

WarnerMedia and certain of its subsidiaries have both funded and unfunded defined benefit pension plans, the substantial majority of which are noncontributory plans covering domestic employees. WarnerMedia also sponsors unfunded domestic postretirement benefit plans covering certain retirees and their dependents. At acquisition, the plans were already closed to new entrants and frozen for new accruals.

During the fourth quarter of 2020, we committed to, and reflected in our results, plan changes impacting retiree life and death coverage and health and medical subsidy benefits. Changes were also communicated that impact future pension accruals for certain management employees. These plan changes align our benefit plans to, or above market level.

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 as applicable.

For postretirement benefit plans, the benefit obligation is the accumulated postretirement benefit obligation, the actuarial present value as of the measurement date of all future benefits attributed under the terms of the postretirement benefit plans to employee service.

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

	Pension Benefits		Postretirement Benefits	
	2021	2020	**2021**	2020
Benefit obligation at beginning of year	**$ 62,158**	$ 59,873	**$ 13,928**	$ 16,041
Service cost - benefits earned during the period	**957**	1,029	**45**	53
Interest cost on projected benefit obligation	**1,276**	1,687	**210**	416
Amendments	**—**	(340)	**—**	(2,655)
Actuarial (gain) loss	**(1,237)**	5,054	**(275)**	1,423
Benefits paid, including settlements	**(5,942)**	(5,124)	**(1,356)**	(1,370)
Curtailment	**—**	(1)	**—**	—
Plan transfers	**—**	(20)	**—**	20
Benefit obligation at end of year	**$ 57,212**	$ 62,158	**$ 12,552**	$ 13,928

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	
	2021	2020	**2021**	2020
Fair value of plan assets at beginning of year	**$ 54,606**	$ 53,530	**$ 3,843**	$ 4,145
Actual return on plan assets	**5,737**	6,199	**210**	302
Benefits paid, including settlements[1]	**(5,942)**	(5,124)	**(1,163)**	(1,029)
Contributions	**—**	2	**308**	425
Plan transfers	**—**	(1)	**—**	—
Fair value of plan assets at end of year	**54,401**	54,606	**3,198**	3,843
Unfunded status at end of year[2]	**$ (2,811)**	$ (7,552)	**$ (9,354)**	$ (10,085)

[1] At our discretion, certain postretirement benefits may be paid from our 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.

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

	Pension Benefits		Postretirement Benefits	
	2021	2020	**2021**	2020
Current portion of employee benefit obligation[1]	**$ —**	$ —	**$ (1,106)**	$ (1,213)
Employee benefit obligation[2]	**(2,811)**	(7,552)	**(8,248)**	(8,872)
Net amount recognized	**$ (2,811)**	$ (7,552)	**$ (9,354)**	$ (10,085)

1 Included in "Accounts payable and accrued liabilities."

2 Included in "Postemployment benefit obligation," combined with international pension obligations and other postemployment obligations of $364 and $1,226 at December 31, 2021, and $553 and $1,299 at December 31, 2020, respectively.

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 $56,159 at December 31, 2021, and $60,848 at December 31, 2020.

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

Periodic Benefit Costs

The service cost component of net periodic pension cost (credit) is recorded in operating expenses in the consolidated statements of income while the remaining components are recorded in "Other income (expense) – net." Our combined net pension and postretirement cost (credit) recognized in our consolidated statements of income was $(7,652), $711 and $2,762 for the years ended December 31, 2021, 2020 and 2019.

The following table presents the components of net periodic benefit cost (credit):

	Pension Benefits			Postretirement Benefits		
	2021	2020	2019	**2021**	2020	2019
Service cost – benefits earned during the period	**$ 957**	$ 1,029	$ 1,019	**$ 45**	$ 53	$ 71
Interest cost on projected benefit obligation	**1,276**	1,687	1,960	**210**	416	675
Expected return on assets	**(3,513)**	(3,557)	(3,561)	**(151)**	(178)	(227)
Amortization of prior service credit	**(144)**	(113)	(113)	**(2,537)**	(2,329)	(1,820)
Net periodic benefit cost (credit) before remeasurement	**(1,424)**	(954)	(695)	**(2,433)**	(2,038)	(1,301)
Actuarial (gain) loss	**(3,461)**	2,404	3,088	**(334)**	1,299	1,670
Net pension and postretirement cost (credit)	**$ (4,885)**	$ 1,450	$ 2,393	**$ (2,767)**	$ (739)	$ 369

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		
	2021	2020	2019	**2021**	2020	2019
Balance at beginning of year	**$ 525**	$ 361	$ 447	**$ 8,416**	$ 8,171	$ 6,086
Prior service (cost) credit	**—**	250	—	**—**	2,001	3,457
Amortization of prior service credit	**(109)**	(86)	(86)	**(1,912)**	(1,756)	(1,372)
Total recognized in other comprehensive (income) loss	**(109)**	164	(86)	**(1,912)**	245	2,085
Balance at end of year	**$ 416**	$ 525	$ 361	**$ 6,504**	$ 8,416	$ 8,171

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		
	2021	2020	2019	**2021**	2020	2019
Weighted-average discount rate for determining benefit obligation at December 31	**3.00 %**	2.70 %	3.40 %	**2.80 %**	2.40 %	3.20 %
Discount rate in effect for determining service cost[1]	**3.30 %**	3.60 %	4.10 %	**2.90 %**	3.50 %	4.40 %
Discount rate in effect for determining interest cost[1]	**2.30 %**	2.90 %	3.50 %	**1.60 %**	2.70 %	3.70 %
Weighted-average interest credit rate for cash balance pension programs[2]	**3.20 %**	3.10 %	3.30 %	**— %**	— %	— %
Long-term rate of return on plan assets	**6.75 %**	7.00 %	7.00 %	**4.50 %**	4.75 %	5.75 %
Composite rate of compensation increase for determining benefit obligation	**3.00 %**	3.00 %	3.00 %	**3.00 %**	3.00 %	3.00 %
Composite rate of compensation increase for determining net cost (benefit)	**3.00 %**	3.00 %	3.00 %	**3.00 %**	3.00 %	3.00 %

[1] Weighted-average discount rates shown for years with interim remeasurements: 2021 and 2019 for pension benefits and 2019 for postretirement benefits.
[2] Weighted-average interest crediting rates for cash balance pension programs relate only to the cash balance portion of total pension benefits. A 0.50% increase in the weighted-average interest crediting rate would increase the pension benefit obligation by $125.

We recognize gains and losses on pension and postretirement plan assets and obligations immediately in "Other income (expense) – net" in our consolidated statements of income. 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.

Discount Rate Our assumed weighted-average discount rate for pension and postretirement benefits of 3.00% and 2.80% respectively, at December 31, 2021, 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 had an average rating of at least Aa3 or AA- by the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2021, when compared to the year ended December 31, 2020, we increased our pension discount rate by 0.30%, resulting in a decrease in our pension plan benefit obligation of $1,645 and increased our postretirement discount rate by 0.40%, resulting in a decrease in our postretirement benefit obligation of $341. For the year ended December 31, 2020, we decreased our pension discount rate by 0.70%, resulting in an increase in our pension plan benefit obligation of $5,594 and decreased our postretirement discount rates by 0.80%, resulting in an increase in our postretirement benefit obligation of $1,311.

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

Expected Long-Term Rate of Return In 2022, our expected long-term rate of return is 6.75% on pension plan assets and 4.50% on postretirement plan assets. Our long-term rates of return reflect the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit

obligations. In setting the long-term assumed rate of return, management considers capital markets' future expectations, the asset mix of the plans' 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 2022 combined pension and postretirement cost to increase $272. 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 2021 and 2020 reflects the long-term average rate of salary increases.

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 our assessment of expectations of healthcare industry inflation, our 2022 assumed annual healthcare prescription drug cost trend and medical cost trend for eligible participants will increase from an annual and ultimate trend rate of 4.00% to an annual and ultimate trend rate of 4.25%. This change in assumption increased our obligation by $31. For 2021, our assumed annual healthcare prescription drug cost trend and medical cost trend for eligible participants remained at 4.00% annual and ultimate rate.

Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets (real estate and natural resources). The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. We do not have significant ERISA required contributions to our pension plans for 2022.

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. We made discretionary contributions of $308 in December 2021 and $425 in December 2020 to our postretirement plan.

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.

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	**2021**	2020	Target	**2021**	2020
Equity securities:						
Domestic	12 % - 22%	**16 %**	19 %	14 % - 24%	**19 %**	19 %
International	8 % - 18%	**13**	15	14 % - 24%	**19**	14
Fixed income securities	35 % - 45%	**38**	35	34 % - 44%	**39**	45
Real assets	7 % - 17%	**10**	8	— % - 6%	**1**	1
Private equity	3 % - 13%	**12**	9	— % - 6%	**1**	1
Preferred interests	5 % - 15%	**10**	10	— % - —%	**—**	—
Other	— % - 5%	**1**	4	17 % - 27%	**21**	20
Total		**100 %**	100 %		**100 %**	100 %

The pension trust holds preferred equity interests valued at $5,562 in AT&T Mobility II LLC (Mobility II), the primary holding company for our wireless business (see Note 17). During 2020, the trust sold a portion of these preferred interests valued at $2,885 to third party investors. The preferred equity interests were valued at $5,771 as of December 31, 2020.

At December 31, 2021, AT&T securities represented 11% of assets held by our pension trust, including the preferred interests in Mobility II. The VEBA trusts included in these financial statements no longer hold AT&T securities.

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.

The preferred interests in Mobility II are valued by an independent fiduciary using an income approach.

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 13 for a discussion of the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The following tables set forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2021:

Pension Assets and Liabilities at Fair Value as of December 31, 2021				
	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 167	$ —	$ —	$ 167
Interest bearing cash	11	—	—	11
Foreign currency contracts	—	5	—	5
Equity securities:				
Domestic equities	7,693	—	1	7,694
International equities	4,117	—	7	4,124
Preferred interests	—	—	5,562	5,562
Fixed income securities:				
Corporate bonds and other investments	—	11,168	2	11,170
Government and municipal bonds	—	6,977	—	6,977
Mortgage-backed securities	—	268	—	268
Real estate and real assets	—	—	3,318	3,318
Securities lending collateral	1,645	1,285	—	2,930
Receivable for variation margin	8	—	—	8
Assets at fair value	13,641	19,703	8,890	42,234
Investments sold short and other liabilities at fair value	(529)	(3)	(1)	(533)
Total plan net assets at fair value	$ 13,112	$ 19,700	$ 8,889	$ 41,701
Assets held at net asset value practical expedient				
Private equity funds				6,454
Real estate funds				2,329
Commingled funds				6,780
Total assets held at net asset value practical expedient				15,563
Other assets (liabilities)[1]				(2,863)
Total Plan Net Assets				**$ 54,401**

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

Postretirement Assets and Liabilities at Fair Value as of December 31, 2021				
	Level 1	Level 2	Level 3	Total
Interest bearing cash	$ 371	$ 295	$ —	$ 666
Equity securities:				
Domestic equities	323	—	—	323
International equities	287	—	1	288
Fixed income securities:				
Corporate bonds and other investments	1	—	—	1
Securities lending collateral	—	9	—	9
Assets at fair value	982	304	1	1,287
Securities lending payable and other liabilities	—	(9)	—	(9)
Total plan net assets at fair value	$ 982	$ 295	$ 1	$ 1,278
Assets held at net asset value practical expedient				
Commingled funds				1,883
Private equity				19
Real estate funds				16
Total assets held at net asset value practical expedient				1,918
Other assets (liabilities)[1]				2
Total Plan Net Assets				**$ 3,198**

[1] Other assets (liabilities) include amounts receivable and accounts 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, 2021:

Pension Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ 5,793	$ 53	$ 2,544	$ 8,390
Realized gains (losses)	2	—	(31)	(29)
Unrealized gains (losses)	(203)	—	558	355
Transfers in	—	1	—	1
Transfers out	(7)	(8)	—	(15)
Purchases	7	1	425	433
Sales	(23)	(45)	(178)	(246)
Balance at end of year	**$ 5,569**	**$ 2**	**$ 3,318**	**$ 8,889**

Postretirement Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ —	$ 4	$ —	$ 4
Realized gains (losses)	—	(1)	—	(1)
Unrealized gains (losses)	—	1	—	1
Transfers in	1	—	—	1
Sales	—	(4)	—	(4)
Balance at end of year	**$ 1**	**$ —**	**$ —**	**$ 1**

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, 2020:

Pension Assets and Liabilities at Fair Value as of December 31, 2020				
	Level 1	Level 2	Level 3	Total
Non-interest bearing cash	$ 173	$ —	$ —	$ 173
Interest bearing cash	7	—	—	7
Foreign currency contracts	—	3	—	3
Equity securities:				
Domestic equities	9,784	—	11	9,795
International equities	4,821	11	12	4,844
Preferred interests	—	—	5,771	5,771
Fixed income securities:				
Corporate bonds and other investments	—	11,043	52	11,095
Government and municipal bonds	—	6,039	—	6,039
Mortgage-backed securities	—	442	1	443
Real estate and real assets	—	—	2,544	2,544
Securities lending collateral	621	1,435	—	2,056
Receivable for variation margin	23	—	—	23
Assets at fair value	15,429	18,973	8,391	42,793
Investments sold short and other liabilities at fair value	(450)	(8)	(1)	(459)
Total plan net assets at fair value	$ 14,979	$ 18,965	$ 8,390	$ 42,334
Assets held at net asset value practical expedient				
Private equity funds				5,154
Real estate funds				1,694
Commingled funds				7,706
Total assets held at net asset value practical expedient				14,554
Other assets (liabilities)[1]				(2,282)
Total Plan Net Assets				**$ 54,606**

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

Postretirement Assets and Liabilities at Fair Value as of December 31, 2020				
	Level 1	Level 2	Level 3	Total
Interest bearing cash	$ 497	$ 302	$ —	$ 799
Equity securities:				
Domestic equities	363	—	—	363
International equities	282	—	—	282
Fixed income securities:				
Corporate bonds and other investments	5	307	3	315
Government and municipal bonds	6	132	1	139
Mortgage-backed securities	—	94	—	94
Securities lending collateral	—	28	—	28
Assets at fair value	1,153	863	4	2,020
Securities lending payable and other liabilities	(1)	(29)	—	(30)
Total plan net assets at fair value	$ 1,152	$ 834	$ 4	$ 1,990
Assets held at net asset value practical expedient				
Private equity funds				24
Real estate funds				22
Commingled funds				1,843
Total assets held at net asset value practical expedient				1,889
Other assets (liabilities)[1]				(36)
Total Plan Net Assets				**$ 3,843**

[1] Other assets (liabilities) include amounts receivable and accounts 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, 2020:

Pension Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ 8,816	$ 6	$ 2,817	$ 11,639
Realized gains (losses)	(150)	—	255	105
Unrealized gains (losses)	3	—	(178)	(175)
Transfers in	4	51	36	91
Transfers out	—	(3)	—	(3)
Purchases	9,114	1	223	9,338
Sales	(11,994)	(2)	(609)	(12,605)
Balance at end of year	$ 5,793	$ 53	$ 2,544	$ 8,390

Postretirement Assets	Equities	Fixed Income Funds	Real Estate and Real Assets	Total
Balance at beginning of year	$ —	$ 32	$ —	$ 32
Transfers in	—	3	—	3
Transfers out	—	(11)	—	(11)
Sales	—	(20)	—	(20)
Balance at end of year	$ —	$ 4	$ —	$ 4

Estimated Future Benefit Payments

Expected benefit payments are estimated using the same assumptions used in determining our benefit obligation at December 31, 2021. 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
2022	$ 5,922	$ 1,262
2023	4,237	1,181
2024	4,121	888
2025	4,113	842
2026	3,934	794
Years 2027 - 2031	18,292	3,544

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 non-bankruptcy remote trust that are independently managed and used to provide for certain of 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. For our supplemental retirement plans, the projected benefit obligation was $2,326 and the net supplemental retirement pension credit was $41 at and for the year ended December 31, 2021. The projected benefit obligation was $2,687 and the net supplemental retirement pension cost was $330 at and for the year ended December 31, 2020.

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 2.70% at December 31, 2021 and 2.30% at December 31, 2020 were calculated using the same methodologies used in calculating the discount rate for our qualified pension and postretirement benefit plans.

Deferred compensation expense was $171 in 2021, $183 in 2020 and $199 in 2019.

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, which is based on the cost of shares or units allocated to participating employees' accounts or the cash contributed to participant accounts, was $760, $814 and $793 for the years ended December 31, 2021, 2020 and 2019.

NOTE 16. SHARE-BASED PAYMENTS

Under our various plans, senior and other management employees and nonemployee directors have received nonvested stock and stock units. In conjunction with the 2018 acquisition of Time Warner, restricted stock units issued under Time Warner plans were converted to AT&T share units that will be distributed in the form of AT&T common stock and cash. The shares will vest over a period of one to four years in accordance with the terms of those plans. In addition, outstanding Time Warner stock options were converted to AT&T stock options that vested within one year. We do not intend to issue any additional grants under the Time Warner Inc. plans. Future grants to eligible employees will be issued under AT&T plans.

We grant performance stock units, which are nonvested stock units, based upon our stock price at the date of grant and award them in the form of AT&T common stock and cash at the end of a three-year period, subject to the achievement of certain performance goals. We treat the cash settled portion of these awards as a liability. We grant forfeitable restricted stock and stock units, which are valued at the market price of our common stock at the date of grant and predominantly vest over a three- to 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, 2021, we were authorized to issue up to approximately 139 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., those 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:

	2021	2020	2019
Performance stock units	**$ 245**	$ 348	$ 544
Restricted stock and stock units	**385**	290	273
Other nonvested stock units	**7**	—	7
Stock options	**—**	—	(5)
Total	**$ 637**	$ 638	$ 819
Income tax benefit	**$ 157**	$ 157	$ 202

A summary of the status of our nonvested stock units as of December 31, 2021, 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, 2021	43	$34.50
Granted	36	28.79
Vested	(26)	31.56
Forfeited	(4)	31.52
Nonvested at December 31, 2021	**49**	**$32.06**

As of December 31, 2021, there was $916 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 1.95 years. The total fair value of shares vested during the year was $811 for 2021, compared to $647 for 2020 and $798 for 2019.

It is our intent to satisfy share option exercises using our treasury stock. Cash received from stock option exercises was $60 for 2021, $65 for 2020 and $446 for 2019.

NOTE 17. STOCKHOLDERS' EQUITY

Authorized Shares We have authorized 14 billion common shares of AT&T stock and 10 million preferred shares of AT&T stock, each with a par value of $1.00 per share. Cumulative perpetual preferred shares consist of the following:

- Series A: 48 thousand shares outstanding at December 31, 2021 and December 31, 2020, with a $25,000 per share liquidation preference and a dividend rate of 5.000%.
- Series B: 20 thousand shares outstanding at December 31, 2021 and December 31, 2020, with a €100,000 per share liquidation preference, and an initial rate of 2.875%, subject to reset after May 1, 2025.
- Series C: 70 thousand shares outstanding at December 31, 2021 and December 31, 2020, with a $25,000 per share liquidation preference, and a dividend rate of 4.75%.

So long as the quarterly preferred dividends are declared and paid on a timely basis on each series of preferred shares, there are no limitations on our ability to declare a dividend on or repurchase AT&T common shares. The preferred shares are optionally redeemable by AT&T at the liquidation price on or after five years from the issuance date, or upon certain other contingent events.

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 has approved the following authorization to repurchase common stock: (1) March 2013 authorization program of 300 million shares, which was completed in 2020 and (2) March 2014 authorization program for 300 million shares, with approximately 178 million outstanding at December 31, 2021.

To implement these authorizations, we used open market repurchases, relying on Rule 10b5-1 of the Securities Exchange Act of 1934, where feasible. We also used accelerated share repurchase agreements with large financial institutions to repurchase our stock. During 2020, we repurchased approximately 142 million shares totaling $5,278 under the March 2013 and March 2014 authorizations. During 2021, there were no shares repurchased under the March 2014 authorization.

Dividend Declarations In December 2021 and December 2020, AT&T declared a quarterly preferred dividend of $36 and a quarterly common dividend of $0.52 per share of common stock.

Preferred Interests Issued by Subsidiaries We have issued cumulative perpetual preferred membership interests in certain subsidiaries. The preferred interests are entitled to cash distributions, subject to declaration. The preferred interests are included in "Noncontrolling interest" on the consolidated balance sheets.

Mobility II
We previously issued 320 million Series A Cumulative Perpetual Preferred Membership Interests in Mobility II (Mobility preferred interests), representing all currently outstanding Mobility preferred equity interests, which pay cash distributions of $560 per annum, subject to declaration. So long as the distributions are declared and paid, the terms of the Mobility preferred equity interests will not impose any limitations on cash movements between affiliates, or our ability to declare a dividend on or repurchase AT&T shares.

A holder of the Mobility preferred interests may put the interests to Mobility II. Mobility II may redeem the interests upon a change in control of Mobility II or on or after September 9, 2022. When either option arises due to a passage of time, that option may be exercised only during certain periods.

The price at which a put option or a redemption option can be exercised is the greater of (1) the market value of the interests as of the last date of the quarter preceding the date of the exercise of a put or redemption option and (2) the sum of (a) twenty-five dollars ($8,000 in the aggregate) plus (b) any accrued and unpaid distributions. The redemption price may be paid with cash, AT&T common stock, or a combination of cash and AT&T common stock, at Mobility II's sole election. In no event shall Mobility II be required to deliver more than 250 million shares of AT&T common stock to settle put and redemption options. We have the intent and ability to settle the Mobility preferred equity interests with cash.

Tower Holdings
In 2019, we issued $6,000 nonconvertible cumulative preferred interests in a wireless subsidiary (Tower Holdings) that holds interests in various tower assets and have the right to receive approximately $6,000 if the purchase options from the tower companies are exercised.

The membership interests in Tower Holdings consist of (1) common interests, which are held by a consolidated subsidiary of AT&T, and (2) two series of preferred interests (collectively the "Tower preferred interests"). The September series (Class A-1) of the preferred interests totals $1,500 and pays an initial preferred distribution of 5.0%, and the December series (Class A-2) totals $4,500 and pays an initial preferred distribution of 4.75%. Distributions are paid quarterly, subject to declaration, and reset every five years. Any failure to declare or pay distributions on the Tower preferred interests would not impose any limitation on cash movements between affiliates, or our ability to declare a dividend on or repurchase AT&T shares. We can call the Tower preferred interests at the issue price beginning five years from the issuance date or upon the receipt of proceeds from the sale of the underlying assets.

The holders of the Tower preferred interests have the option to require redemption upon the occurrence of certain contingent events, such as the failure of AT&T to pay the preferred distribution for two or more periods or to meet certain other requirements, including a minimum credit rating. If notice is given upon such an event, all other holders of equal or more subordinate classes of membership interests in Tower Holdings are entitled to receive the same form of consideration payable to the holders of the preferred interests, resulting in a deemed liquidation for accounting purposes.

Telco LLC
In September 2020, we issued $2,000 nonconvertible cumulative preferred interests out of a newly created limited liability company (Telco LLC) that was formed to hold telecommunication-related assets.

Members' equity in Telco LLC consist of (1) member's interests, which are held by a consolidated subsidiary of AT&T, and (2) preferred interests (Telco preferred interests), which pay an initial preferred distribution of 4.25% annually, subject to declaration, and subject to

reset every seven years. Failure to pay distributions on the Telco preferred interests would not limit cash movements between affiliates, or our ability to declare a dividend on or repurchase AT&T shares. We can call the Telco preferred interests at the issue price beginning seven years from the issuance date.

The holders of the Telco preferred interests have the option to require redemption upon the occurrence of certain contingent events, such as the failure of Telco LLC to pay the preferred distribution for two or more periods or to meet certain other requirements, including a minimum credit rating. If notice is given, all other holders of equal or more subordinate classes of members' equity are entitled to receive the same form of consideration payable to the holders of the preferred interests, resulting in a deemed liquidation for accounting purposes.

PR Holdings
In 2019, we issued $1,950 nonconvertible cumulative preferred interests in a subsidiary (PR Holdings) that held notes secured by the proceeds from our agreement to sell wireless and wireline operations in Puerto Rico and the U.S. Virgin Islands. These preferred interests were redeemed on November 6, 2020. (See Note 6)

The membership interests in PR Holdings consisted of (1) common interests, which were held by consolidated subsidiaries of AT&T, and (2) preferred interests (PR preferred interests). The PR preferred interests paid an initial preferred distribution at an annual rate of 4.75%. Distributions were paid quarterly, subject to declaration.

NOTE 18. SALES OF RECEIVABLES

We have agreements with various third-party financial institutions pertaining to the sales of certain types of our accounts receivable. The most significant of these programs are discussed in detail below and generally consist of (1) receivables arising from equipment installment plans, which are sold for cash and a deferred purchase price, and (2) revolving service and trade receivables. Under these programs, we transfer receivables to purchasers in exchange for cash and additional consideration upon settlement of the receivables, where applicable. Under the terms of our agreements for these programs, we continue to bill and collect the payments from our customers on behalf of the financial institutions.

The sales of 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 cash receipts on sold receivables as cash flows from operations in our consolidated statements of cash flows. Cash receipts on the deferred purchase price are classified as cash flows from investing activities.

Our equipment installment and revolving receivables programs are discussed in detail below. The following table sets forth a summary of the receivables and accounts being serviced at December 31:

	2021		2020	
	Equipment Installment	**Revolving**	Equipment Installment	Revolving
Gross receivables:	**$ 4,361**	**$ 3,527**	$ 5,565	$ 3,909
Balance sheet classification				
Accounts receivable				
Notes receivable	**1,846**	**—**	2,716	—
Trade receivables	**606**	**3,337**	554	3,715
Other Assets				
Noncurrent notes and trade receivables	**1,909**	**190**	2,295	194
Outstanding portfolio of receivables derecognized from our consolidated balance sheets	**9,767**	**6,280**	7,827	5,300
Cash proceeds received, net of remittances[1]	**6,644**	**6,280**	5,646	5,300

[1] Represents amounts to which financial institutions remain entitled, excluding the deferred purchase price.

Equipment Installment Receivables Program

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.

We maintain a program under which we transfer a portion of these receivables through our bankruptcy-remote subsidiary in exchange for cash and additional consideration upon settlement of the receivables, referred to as the deferred purchase price. 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 financial institutions equal to any outstanding remaining installment receivable balance. Accordingly, we

record a guarantee obligation for this estimated amount at the time the receivables are transferred.

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

	2021	2020	2019
Gross receivables sold	**$ 10,793**	$ 7,270	$ 9,921
Net receivables sold[1]	**10,502**	7,026	9,483
Cash proceeds received	**9,740**	6,089	8,189
Deferred purchase price recorded	**1,080**	1,021	1,451
Guarantee obligation recorded	**434**	157	341

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

The deferred purchase price and guarantee obligation are initially recorded at estimated fair value and subsequently adjusted for changes in present value of expected cash flows. 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 and 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 13).

The following table presents the previously transferred equipment installment receivables, which we repurchased in exchange for the associated deferred purchase price:

	2021	2020	2019
Fair value of repurchased receivables	**$ 1,424**	$ 1,271	$ 1,418
Carrying value of deferred purchase price	**1,334**	1,235	1,350
Gain on repurchases[1]	**$ 90**	$ 36	$ 68

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

At December 31, 2021 and December 31, 2020, our deferred purchase price receivable was $3,177 and $1,991, respectively, of which $2,123 and $1,476 are included in "Prepaid and other current assets" on our consolidated balance sheets, with the remainder in "Other Assets." The guarantee obligation at December 31, 2021 and December 31, 2020 was $371 and $228, respectively, of which $101 and $161 are included in "Accounts payable and accrued liabilities" on our consolidated balance sheets, with the remainder in "Other noncurrent liabilities." 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.

Revolving Receivables Program

We have a revolving agreement to transfer up to $6,680 of certain receivables (primarily from WarnerMedia) through our bankruptcy-remote subsidiaries to various financial institutions on a recurring basis in exchange for cash equal to the gross receivables transferred. This agreement is subject to renewal on an annual basis and the transfer limit may be expanded or reduced from time to time. As customers pay their balances, we transfer additional receivables into the program, resulting in our gross receivables sold exceeding net cash flow impacts (e.g., collect and reinvest). The transferred receivables are fully guaranteed by our bankruptcy-remote subsidiaries, which hold additional receivables in the amount of $3,527 that are pledged as collateral under this agreement. The transfers are recorded at fair value of the proceeds received and obligations assumed less derecognized receivables. The obligation is subsequently adjusted for changes in estimated expected credit losses and interest rates. Our maximum exposure to loss related to these receivables transferred is limited to the amount outstanding.

The fair value measurement used for the obligation is considered Level 3 under the Fair Value Measurement and Disclosure framework (see Note 13).

The following table sets forth a summary of receivables sold:

	2021	2020	2019
Gross receivables sold/cash proceeds received[1]	**$20,060**	$ 15,888	$ 11,989
Total collections under revolving agreement[2]	**18,910**	14,888	7,689
Receivables repurchased	**170**	—	—
Net cash proceeds received	**$ 980**	$ 1,000	$ 4,300
Net receivables sold[3]	**$ 19,775**	$ 15,760	$ 11,604
Obligations recorded	**18**	271	530

[1] Includes initial sale of receivables of $1,380, $1,000 and $4,300 for 2021, 2020 and 2019, respectively.
[2] Includes collections of $400, $0 and $0 for 2021, 2020 and 2019, respectively, that were not reinvested under the revolving agreement.
[3] Receivables net of allowance, return and incentive reserves and imputed interest.

NOTE 19. 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 ten years at current market rates, subject to optional renewals in the future.

We determined that we did not transfer control of the tower assets, which 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 – Net" on our consolidated balance sheets and depreciate them accordingly. At December 31, 2021 and 2020, the tower assets had a balance of $725 and $764, respectively. Our depreciation expense for these assets was $39 for each of 2021, 2020 and 2019.

Payments made to Crown Castle under this arrangement were $253 for 2021. At December 31, 2021, the future minimum payments under the sublease arrangement are $258 for 2022, $264 for 2023, $269 for 2024, $274 for 2025, $280 for 2026 and $707 thereafter.

NOTE 20. TRANSACTIONS WITH DIRECTV

On July 31, 2021, we closed our transaction with TPG to form a new company named DIRECTV (see Note 6). The transaction resulted in our deconsolidation of the Video business. Effective August 1, 2021, we began accounting for our investment in DIRECTV under the equity method and recorded our share of DIRECTV earnings as equity in net income of affiliates, with DIRECTV considered a related party (see Note 10).

For the five months ended December 31, 2021, our share of DIRECTV's earnings included in equity in net income of affiliates was $619. Cash distributions from DIRECTV totaled $1,942, with $619 classified as operating activities and $1,323 classified as investing activities in our consolidated statement of cash flows.

In addition to the assets and liabilities contributed to DIRECTV, we recorded total obligations of approximately $2,100 to cover certain net losses under the NFL SUNDAY TICKET contract, of which $1,800 is in the form of a note payable to DIRECTV (see Note 6). Cash payments to DIRECTV on the note totaled $459 and were classified as financing activities in our consolidated statement of cash flows. Amounts due under the DIRECTV note were $1,341 at December 31, 2021.

Through our WarnerMedia properties, we license content and programming and provide advertising services to DIRECTV. Revenue recognized from DIRECTV, which was previously eliminated, totaled approximately $670 for the five months ended December 31, 2021. We also provide DIRECTV with network transport for U-verse products and sales services under commercial arrangements for up to five years.

Pursuant to a commercial agreement, WarnerMedia continues to sell DIRECTV's advertising inventory under a revenue sharing agreement. WarnerMedia records amounts billed as advertising revenue and recognizes expense for DIRECTV's revenue share, which was approximately $600 for the five months ended December 31, 2021. Under separate transition services agreements, we provide DIRECTV certain operational support, including servicing of certain of their customer receivables for up to three years. For the five months ended December 31, 2021, we billed DIRECTV approximately $550 for these costs, which were primarily recorded as a reduction to the operations and support expenses incurred and resulted in net retained costs to AT&T of approximately $200.

At December 31, 2021, we had accounts receivable from DIRECTV of $436 and accounts payable to DIRECTV of $329.

We are not committed, implicitly or explicitly, to provide financial or other support, other than noted above, as our involvement with DIRECTV is limited to the carrying amount of the assets and liabilities recognized on our balance sheet.

NOTE 21. FIRSTNET

In 2017, the First Responder Network Authority (FirstNet) selected AT&T to build and manage the first nationwide broadband network dedicated to America's first responders. Under the 25-year agreement, FirstNet provides 20 MHz of valuable telecommunications spectrum and success-based payments of $6,500 over the first five years to support network buildout. We are required to construct a network that achieves coverage and nationwide interoperability requirements and 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 own and operate, which we estimate in the $3,000 or less range over the life of the 25-year contract. After FirstNet's operating expenses are paid, we anticipate the remaining amount, expected to be in the $15,000 range, will be reinvested into the network.

During 2021, we submitted $120 in sustainability payments, with future payments under the agreement of $195 for 2022, 2023, 2024 and 2025; $1,590 for 2026; and $15,030 thereafter. Amounts paid to FirstNet, which are not expected to be 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 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, 2021, we have collected approximately $5,860 for the completion of certain tasks and anticipate collecting the remainder of the $6,500 as we achieve milestones set out by FirstNet in 2022. We also received approximately $170 in 2021 from FirstNet for reinvestment above the original success-based payments.

NOTE 22. 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 $28,860 in 2022, $24,585 in total for 2023 and 2024, $11,636 in total for 2025 and 2026 and $12,540 in total for years thereafter.

See Note 13 for a discussion of collateral and credit-risk contingencies.

NOTE 23. ADDITIONAL FINANCIAL INFORMATION

	December 31,	
Consolidated Balance Sheets	**2021**	2020
Accounts payable and accrued liabilities:		
Accounts payable	**$ 30,756**	$ 31,836
Accrued payroll and commissions	**3,449**	2,988
Current portion of employee benefit obligation	**1,278**	1,415
Accrued participations and residuals	**2,966**	2,708
Accrued interest	**2,463**	2,454
Accrued taxes	**1,402**	1,019
Other	**8,347**	7,631
Total accounts payable and accrued liabilities	**$ 50,661**	$ 50,051

Consolidated Statements of Income	**2021**	2020	2019
Advertising expense	**$ 6,316**	$ 5,253	$ 6,121
Interest expense incurred	**$ 7,838**	$ 8,048	$ 8,622
Capitalized interest – capital expenditures	**(173)**	(123)	(200)
Capitalized interest – spectrum[1]	**(781)**	—	—
Total interest expense	**$ 6,884**	$ 7,925	$ 8,422

[1] Included in "Acquisitions, net of cash acquired" on our consolidated statement of cash flows.

Cash and Cash Flows We typically maintain our restricted cash balances for purchases and sales of certain investment securities and funding of certain deferred compensation benefit payments.

The following table summarizes cash and cash equivalents and restricted cash balances on our consolidated balance sheets:

	December 31,			
Cash and Cash Equivalents and Restricted Cash	**2021**	2020	2019	2018
Cash and cash equivalents	**$ 21,169**	$ 9,740	$ 12,130	$ 5,204
Restricted cash in Other current assets	**3**	9	69	61
Restricted cash in Other Assets	**144**	121	96	135
Cash and cash equivalents and restricted cash	**$ 21,316**	$ 9,870	$ 12,295	$ 5,400

The following table summarizes cash paid during the periods for interest income taxes and spectrum:

Consolidated Statements of Cash Flows	**2021**	2020	2019
Cash paid (received) during the year for:			
Interest	**$ 7,673**	$ 8,237	$ 8,693
Income taxes, net of refunds	**700**	993	1,421
Spectrum acquisitions[1]	**24,672**	1,613	1,576

[1] Included as cash paid for "Acquisitions, net of cash acquired" on our consolidated statement of cash flows. Excludes interest during construction.

Noncash Investing and Financing Activities In connection with capital improvements and the acquisition of other productive assets, we negotiate favorable payment terms (referred to as vendor financing), which are reported as financing activities in our statements of cash flows when paid. We recorded $5,282 of vendor financing commitments related to capital investments in 2021, $4,664 in 2020 and $2,632 in 2019.

Total vendor financing payables included in our December 31, 2021 consolidated balance sheet were approximately $5,000, with $3,950 due within one year (in "Accounts payable and accrued liabilities") and the remainder predominantly due within five years (in "Other noncurrent liabilities").

Labor Contracts As of January 31, 2022, we employed approximately 203,000 persons. Approximately 37% 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. The main contracts included the following:

- A contract covering approximately 12,000 Mobility employees in 36 states and the District of Columbia is set to expire in February 2022.
- A contract covering approximately 6,000 wireline employees in five Midwest states that was set to expire in April 2022 was extended for a four-year period until April 2026.
- A contract covering approximately 3,000 MW IBEW employees is set to expire in June 2022.
- A contract covering approximately 2,000 AT&T Corp. employees nationwide that was set to expire in April 2022 was extended for a four-year period until April 2026.
- A contract covering approximately 170 Teamsters Alascom employees in Alaska is set to expire in February 2022.

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.

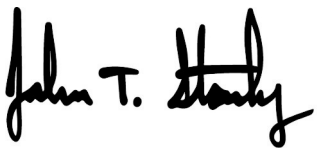
The Audit Committee of the Board of Directors meets periodically with management, the internal auditors and the independent auditors to review the manner in which they are performing their respective responsibilities and to discuss auditing, internal accounting controls and financial reporting matters. 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, 2021. 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, 2021, 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.



John T. Stankey
Chief Executive Officer and President



Pascal Desroches
Senior Executive Vice President and Chief Financial Officer

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, 2021 and 2020, 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, 2021, and the related notes and financial statement schedule listed in Item 15(a) (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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, 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, 2021, 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 16, 2022 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Discount rates used in determining pension and postretirement benefit obligations

Description of the Matter

At December 31, 2021, the Company's pension benefit obligation was $57,212 million and exceeded the fair value of defined benefit pension plan assets of $54,401 million, resulting in an unfunded benefit obligation of $2,811 million. Additionally, at December 31, 2021, the Company's postretirement benefit obligation was $12,552 million and exceeded the fair value of postretirement plan assets of $3,198 million, resulting in an unfunded benefit obligation of $9,354 million. As explained in Note 15 to the consolidated financial statements, the Company updates the assumptions used to measure the defined benefit pension and postretirement benefit obligations, including discount rates, at December 31 or upon a remeasurement event. The Company determines the discount rates used to measure the obligations based on the development of a yield curve using high-quality corporate bonds selected to yield cash flows that correspond to the expected timing and amount of the expected future benefit payments.

Auditing the defined benefit pension and postretirement benefit obligations was complex due to the judgmental nature of the actuarial assumptions made by management, primarily the discount rate, used in the Company's measurement process. The discount rate has a significant effect on the measurement of the defined benefit pension and postretirement benefit obligations, and auditing the discount rate was complex because it required an evaluation of the credit quality of the corporate bonds used to develop the discount rate and the correlation of those bonds' cash inflows to the timing and amount of future expected benefit payments.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of certain controls over management's review of the determination of the discount rates used in the defined benefit pension and postretirement benefit obligations calculations.

To test the determination of the discount rate used in the calculation of the defined benefit pension and postretirement benefit obligations, we performed audit procedures that focused on evaluating, with the assistance of our actuarial specialists, the determination of the discount rates, among other procedures. For example, we evaluated the selected yield curve used to determine the discount rates applied in measuring the defined benefit pension and postretirement benefit obligations. As part of this assessment, we considered the credit quality of the corporate bonds that comprise the yield curve and compared the timing and amount of cash flows at maturity with the expected amounts and duration of the related benefit payments.

Evaluation of goodwill for impairment

Description of the Matter

At December 31, 2021, the Company's goodwill balance was $133,223 million. As discussed in Note 1 to the consolidated financial statements, reporting unit goodwill is tested at least annually for impairment. Estimating fair values in connection with these impairment evaluations involves the utilization of discounted cash flow models and market multiples valuation approaches.

Auditing management's annual goodwill impairment test for the reporting units was complex because the estimation of fair values involves subjective management assumptions, such as estimates of the projected rates of discrete and long-term growth of cash flows and weighted average cost of capital. These assumptions are forward-looking and could be affected by shifts in the evolving market landscape. Changes in these assumptions can have a material effect on the determination of fair value.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's impairment evaluation processes. Our procedures included testing controls over management's review of the valuation models and the significant assumptions described above.

Our audit procedures to test management's impairment evaluations included, among others, assessing the valuation methodologies and significant assumptions discussed above and the underlying data used to develop such assumptions. For example, we compared the significant assumptions to current industry, market and economic trends, and other guideline companies in the same industry. Where appropriate, we evaluated whether changes to the Company's business model, customer base and other factors would affect the significant assumptions. We also assessed the historical accuracy of management's estimates and performed independent sensitivity analyses. We involved our valuation specialists to assist us in performing our audit procedures to test the estimated fair values of the Company's reporting units.

Accounting for the investment in DIRECTV

Description of the Matter

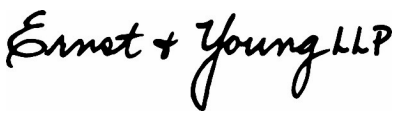
As discussed in Notes 6 and 10, on July 31, 2021, the Company closed on a transaction with TPG to form a new company named DIRECTV Entertainment Holdings, LLC (DIRECTV). In connection with the transaction, the Company contributed its U.S. Video business unit to DIRECTV for $4,250 million of junior preferred units, an additional distribution preference of $4,200 million and a 70% economic interest in common units. DIRECTV was considered a variable interest entity for accounting purposes. The Company concluded that it was not the primary beneficiary and accordingly deconsolidated DIRECTV and accounted for its investment under the equity method of accounting. The initial fair value of the Company's investment in DIRECTV on July 31, 2021 was $6,852 million, which was determined using a discounted cash flow model, reflecting distribution rights and preference of the individual instruments.

Auditing management's application of the variable interest entity consolidation model to this transaction, and its initial estimate of the fair value of the Company's investment in DIRECTV, required significant judgment. In particular, management's assessment of whether the Company is the primary beneficiary under the variable interest model required significant judgment to determine the activities of the investee that most significantly impact the investee's economics, and management applied significant judgment in determining and applying the valuation model used to estimate the initial fair value of the Company's investment in DIRECTV.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's application of the variable interest entity consolidation model, including the identification of the activities that most significantly impact DIRECTV's economics, and its selection and application of the model used to estimate the initial fair value of the Company's investment in DIRECTV.

Our audit procedures to test the appropriateness of management's application of the variable interest entity consolidation model to the DIRECTV transaction included, among others, evaluating the design and purpose of the variable interest entity, and assessing the terms of the arrangement, that were relevant to the evaluation of DIRECTV's significant activities. Our procedures to test the valuation of AT&T's investment in DIRECTV included, among others, involving our valuation specialists in assessing the reasonableness of the selected valuation methodology, performing an independent calculation, and performing sensitivity analysis for certain assumptions in the model.



We have served as the Company's auditor since 1999.

Dallas, Texas
February 16, 2022

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, 2021, 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, 2021, 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 2021 consolidated financial statements of the Company and our report dated February 16, 2022 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.

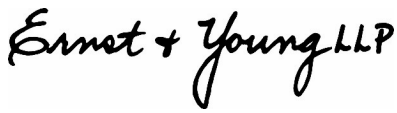
We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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.



Dallas, Texas
February 16, 2022

References

[1] Free cash flow is a non-GAAP financial measure that is frequently used by investors and credit rating agencies to provide relevant and useful information. In 2021, free cash flow is cash from operating activities of $42.0 billion, plus cash distributions from DIRECTV classified as investing activities of $1.3 billion, minus capital expenditures of $16.5 billion. Free cash flow total dividend payout ratio is total dividends paid divided by free cash flow. For full-year 2021, dividends paid totaled $15.1 billion.

[2] Adjusted diluted EPS is a non-GAAP financial measure calculated by excluding from operating revenues, operating expenses and income tax expense certain significant items that are non-operational or non-recurring in nature, including dispositions and merger integration and transaction costs, actuarial gains and losses, significant abandonments and impairment, severance and other material gains and losses. 2021 reported earnings per diluted share was $2.76; adjusted earnings per diluted share was $3.40. This compares to 2020 reported earnings per diluted share of ($0.75) and adjusted earnings per diluted share of $3.18. Further information is included in our Form 8-K dated January 26, 2022.

[3] For full-year 2021, revenues, excluding impacts of the U.S. Video business and Vrio, of $153.2 billion is calculated as operating revenues of $168.9 billion minus Video operating revenues of $15.5 billion, minus Vrio operating revenues of $2.6 billion, plus WarnerMedia sales for content and advertising of $2.5 billion that are external after close of the transactions. Further information is included in our Form 8-K dated January 26, 2022.

[4] Based on nationwide GWS drive test data. GWS conducts paid drive tests for AT&T and uses the data in its analysis.

[5] AT&T is tied for first place in customer satisfaction among internet service providers according to the American Customer Satisfaction Index (https://www.theacsi.org/news-and-resources/press-releases/press-2021/press-release-telecommunications-2020-2021). AT&T also received the highest score in the North Central and South regions and the second highest score in the West region in the J.D. Power 2021 U.S. ISP Study. For J.D. Power 2021 award information, visit jdpower.com/awards.

[6] Run rate based on fourth quarter 2021 revenues.

[7] Global HBO Max and HBO subscribers consist of domestic and international HBO Max and HBO subscribers, and exclude free trials, basic and Cinemax subscribers. Domestic HBO Max and HBO subscribers consist of U.S. accounts with access to HBO Max (including wholesale subscribers and subscribers receiving access through bundled services with affiliates that may not have signed in) and HBO accounts, and exclude free trials and Cinemax subscribers.

[8] Net debt to adjusted EBITDA ratios are non-GAAP financial measures that are frequently used by investors and credit rating agencies to provide relevant and useful information. Our net debt to adjusted EBITDA ratio is calculated by dividing the net debt by the sum of the most recent four quarters of adjusted EBITDA. Adjusted EBITDA estimates depend on future levels of revenues and expenses which are not reasonably estimable at this time. Accordingly, we cannot provide a reconciliation between adjusted EBITDA and the most comparable GAAP metric without unreasonable effort.

[9] Source: https://www.ustelecom.org/2020-broadband-providers-pump-another-79-4-billion-into-americas-connectivity-infrastructure/

AT&T Inc. Board of Directors



William E. Kennard, 65 [3,4,6]
Independent Chairman of the Board
Former U.S. Ambassador to the European Union
Former Chairman of the Federal Communications Commission
Director since 2014
Background: Law, telecommunications, public policy



Samuel A. Di Piazza, Jr, 71 [1,4,6]
Retired Global Chief Executive Officer
PricewaterhouseCoopers International Limited
Director since 2015
DIRECTV Director 2010–2015
Background: Public accounting



Scott T. Ford, 59 [2,4,5]
Member and Chief Executive Officer
Westrock Group, LLC
Director since 2012
Background: Telecommunications



Glenn H. Hutchins, 66 [2,4,6]
Chairman
North Island and North Island Ventures
Co-Founder
Silver Lake
Director since 2014
Background: Technology, public policy



Debra L. Lee, 67 [3,6]
Chair
Leading Women Defined Foundation
Director since 2019
Background: Media, entertainment



Stephen J. Luczo, 64 [1,2]
Managing Partner
Crosspoint Capital Partners, L.P.
Director since 2019
Background: Technology, finance, operations management



Michael B. McCallister, 69 [1,5]
Retired Chairman of the Board and Chief Executive Officer
Humana Inc.
Director since 2013
Background: Health care



Beth E. Mooney, 67 [2,4,5]
Retired Chairman and Chief Executive Officer
KeyCorp
Director since 2013
Background: Banking



Matthew K. Rose, 62 [3,4,5]
Retired Chairman and Chief Executive Officer
Burlington Northern Santa Fe, LLC
Director since 2010
Background: Freight transport



John Stankey, 59
Chief Executive Officer and President
AT&T Inc.
Director since 2020
Background: Telecommunications, media, entertainment, technology



Cynthia B. Taylor, 60 [1,3]
President and Chief Executive Officer
Oil States International, Inc.
Director since 2013
Background: Public accounting, oil and gas



Luis A. Ubiñas, 59 [6]
Former President of the Ford Foundation
Director since June 2021
Background: Telecommunications, government, nonprofits



Geoffrey Y. Yang, 62 [2,5]
Founding Partner and Managing Director
Redpoint Ventures
Director since 2016
Background: Technology, media, entertainment

Committees of the Board:
(1) Audit
(2) Corporate Development and Finance
(3) Corporate Governance and Nominating
(4) Executive
(5) Human Resources
(6) Public Policy and Corporate Reputation

(Information is provided as of February 16, 2022.)

Executive Officers of AT&T Inc. and Its Affiliates



John Stankey, 59
Chief Executive Officer
and President



Pascal Desroches, 57
Senior Executive Vice President
and Chief Financial Officer



Ed Gillespie, 60
Senior Executive Vice President –
External and Legislative Affairs
AT&T Services, Inc.



David Huntley, 63
Senior Executive Vice President
and Chief Compliance Officer



Jason Kilar, 50
Chief Executive Officer
Warner Media, LLC



Lori Lee, 56
Chief Executive Officer –
AT&T Latin America and
Global Marketing Officer



David McAtee II, 53
Senior Executive Vice President
and General Counsel



Jeff McElfresh, 51
Chief Executive Officer
AT&T Communications, LLC



Angela Santone, 50
Senior Executive Vice President –
Human Resources

(Information is provided
as of February 16, 2022.)