AT&T Inc. Financial Review 2022

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OVERVIEW

AT&T Inc. is referred to as "we," "AT&T" or the "Company" throughout this document. AT&T products and services are provided or offered by subsidiaries and affiliates of AT&T Inc. under the AT&T brand and not by AT&T Inc., 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 and technology industries. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes (Notes). Unless otherwise noted, this discussion refers only to our continuing operations and does not include discussion of balances or activity of WarnerMedia, Vrio, Xandr and Playdemic Ltd. (Playdemic), which are part of discontinued operations.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations included in this document generally discusses 2022 and 2021 items and year-to-year comparisons between 2022 and 2021. Discussions of 2020 items and year-to-year comparisons between 2021 and 2020 that are not included in this document can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

On April 8, 2022, we closed our transaction to combine substantially all of our WarnerMedia segment (WarnerMedia) with a subsidiary of Discovery, Inc (Discovery). Upon the separation and distribution of WarnerMedia, the WarnerMedia business met the criteria for discontinued operations. For discontinued operations, we also evaluated transactions that were components of AT&T's single plan of a strategic shift, including dispositions that did not individually meet the criteria due to materiality, and have determined discontinued operations to be comprised of WarnerMedia, Vrio, Xandr and Playdemic. These businesses are reflected in the accompanying financial statements as discontinued operations, including for periods prior to the consummation of the WarnerMedia/Discovery transaction. (See Notes 6 and 23)

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. (See Note 6)

We have two reportable segments: Communications and Latin America. Our segment results presented in Note 4 and discussed below follow our internal management reporting. Each segment's percentage calculation of total segment operating revenue is derived from our segment results table in Note 4. Segment operating income is attributable to our Communications segment due to operating losses in Latin America. Percentage increases and decreases that are not considered meaningful are denoted with a dash.

				Percent Change	
	2022	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Operating Revenues					
Communications	**$ 117,067**	$ 114,730	$ 109,965	**2.0 %**	4.3 %
Latin America	**3,144**	2,747	2,562	**14.5**	7.2
Corporate and Other:					
Corporate	**530**	731	766	**(27.5)**	(4.6)
Video	**—**	15,513	28,610	**—**	(45.8)
Held-for-sale and other reclassifications	**—**	453	1,414	**—**	(68.0)
Eliminations and consolidation	**—**	(136)	(267)	**—**	49.1
AT&T Operating Revenues	**$ 120,741**	$ 134,038	$ 143,050	**(9.9)%**	(6.3)%
Operating Income					
Communications	**$ 29,107**	$ 28,393	$ 29,062	**2.5 %**	(2.3)%
Latin America	**(326)**	(510)	(587)	**36.1**	13.1
Segment Operating Income	**28,781**	27,883	28,475	**3.2**	(2.1)
Corporate	**(2,570)**	(1,644)	(1,398)	**(56.3)**	(17.6)
Video	**—**	2,491	2,174	**—**	14.6
Held-for-sale and other reclassifications	**—**	143	681	**—**	(79.0)
Reclassification of prior service credits	**(2,691)**	(2,680)	(2,442)	**(0.4)**	(9.7)
Certain significant items	**(28,107)**	(296)	(19,118)	**—**	98.5
AT&T Operating Income (Loss)	**$ (4,587)**	$ 25,897	$ 8,372	**— %**	— %

The ***Communications segment*** accounted for approximately 97% of our 2022 total segment operating revenues compared to 98% in 2021 and accounted for all segment operating income in 2022 and 2021. 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 ethernet-based fiber services, IP Voice and managed professional services, as well as traditional voice and data services and related equipment to business customers.
- **Consumer Wireline** provides broadband services, including fiber connections that provide our multi-gig services to residential customers in select locations. Consumer Wireline also provides legacy telephony voice communication services.

The ***Latin America segment*** accounted for approximately 3% of our 2022 total segment operating revenues compared to 2% in 2021. This segment provides wireless services and equipment in Mexico.

RESULTS OF OPERATIONS

Consolidated Results Our financial results from continuing operations are summarized in the following table. We then discuss factors affecting our overall results from continuing operations. Additional analysis is discussed in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2023 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	
	2022	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Operating revenues					
Service	**$ 97,831**	$ 111,565	$ 124,057	**(12.3)%**	(10.1)%
Equipment	**22,910**	22,473	18,993	**1.9**	18.3
Total Operating Revenues	**120,741**	134,038	143,050	**(9.9)**	(6.3)
Operating expenses					
Operations and support	**79,809**	90,076	96,468	**(11.4)**	(6.6)
Asset impairments and abandonments and restructuring	**27,498**	213	15,687	**—**	(98.6)
Depreciation and amortization	**18,021**	17,852	22,523	**0.9**	(20.7)
Total Operating Expenses	**125,328**	108,141	134,678	**15.9**	(19.7)
Operating Income (Loss)	**(4,587)**	25,897	8,372	**—**	—
Interest expense	**6,108**	6,716	7,727	**(9.1)**	(13.1)
Equity in net income of affiliates	**1,791**	603	89	**—**	—
Other income (expense) – net	**5,810**	9,387	(1,088)	**(38.1)**	—
Income (Loss) from Continuing Operations Before Income Taxes	**(3,094)**	29,171	(354)	**—**	—
Income (Loss) from Continuing Operations	**$ (6,874)**	$ 23,776	$ (1,522)	**— %**	— %

OVERVIEW

Operating revenues decreased in 2022 and 2021. The 2022 decline reflects the July 31, 2021 separation of the U.S. video business, other business divestitures that were not included in discontinued operations and lower Business Wireline revenues driven by lower demand for legacy services and product simplification. Partially offsetting declines were higher Mobility service and equipment revenues and, to a lesser extent, gains in broadband service in our Communications segment and growth in Mexico wireless operations.

The 2021 decline reflects the 2021 separation of the U.S. video business 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, and growth in Mexico wireless operations including favorable foreign exchange impacts.

Operations and support expenses decreased in 2022 and 2021. The 2022 decline reflects the separation of U.S. video and lower personnel costs associated with ongoing transformation initiatives, partially offset by higher bad debt expense, the elimination of Connect America Fund Phase II (CAF II) government credits and increased wholesale network access charges. Wireless equipment costs were up slightly, with higher sales volumes and the sale of higher-priced smartphones largely offset by lower 3G shutdown costs in 2022. In the first quarter of 2022, we updated the expected economic lives of customer relationships, which extended the amortization period of deferred acquisition and fulfillment costs and reduced expenses approximately $395, with $150 recorded to Mobility, $115 to Business Wireline and $130 to Consumer Wireline.

The 2021 decline reflects our 2021 business divestitures, lower bad debt expense and lower personnel costs associated with our transformation initiatives. Declines were mostly offset by increased domestic wireless equipment expense from higher volumes.

Asset impairments and abandonments and restructuring increased in 2022 and decreased in 2021. The increase in 2022 was primarily due to $24,812 of noncash goodwill impairments associated with our Business Wireline, Consumer Wireline and Mexico reporting units and were driven by higher interest rates consistent with the macroeconomic environment, with secular declines also impacting Business Wireline growth rates (see Note 9). The increase in 2022 also included $1,413 of wireline conduit asset abandonments (see Note 7) and $1,273 of restructuring and other impairment charges due to updated network build plans stemming from spectrum acquired in recent auctions, severance charges associated with transformation initiatives and impairment of personal protective equipment inventory.

Impairment charges in 2021 were lower than 2020, reflecting a fourth-quarter 2020 impairment charge of $15,508 resulting from our assessment of the recoverability of the long-lived assets and goodwill associated with our U.S. video business.

Depreciation and amortization expense increased in 2022 and decreased in 2021.

Depreciation expense increased $218, or 1.2%, in 2022. The increase was primarily due to ongoing capital investment for strategic initiatives such as fiber and network upgrades and expansion, partially offset by higher estimated lives of our fiber assets (see Note 7). Depreciation expense decreased $1,394, or 7.3%, in 2021, primarily due to ceasing depreciation on U.S. video held-for-sale assets.

Amortization expense decreased $49, or 22.5%, in 2022 and $3,277, or 93.8%, in 2021. Lower amortization reflects our accelerated method of amortization of intangible assets from previous acquisitions and ceasing amortization on U.S. video held-for-sale assets in 2021.

Operating income decreased in 2022 and increased in 2021. Our operating margin was (3.8)% in 2022, compared to 19.3% in 2021 and 5.9% in 2020.

Interest expense decreased in 2022 primarily due to lower debt balances and higher capitalized interest associated with spectrum acquisitions, partially offset by higher interest rates. Interest expense decreased in 2021 primarily due to lower interest rates and higher capitalized interest associated with spectrum acquisitions, partially offset by higher debt balances.

Equity in net income of affiliates increased in 2022 and 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, 10 and 19).

Other income (expense) – net decreased in 2022 primarily due to lower actuarial gains ($1,999 in 2022 compared to $4,140 in 2021), lower pension and postretirement benefit credits and lower returns on other benefit-related investments. Pension and postretirement benefit credits decreased as a result of higher assumed discount rates and lower returns on benefit plan assets. Our 2022 benefit expense also includes approximately $280 favorable impact from a retirement benefit plan change, with $230 resulting from prior service credits (approximately $100 for Business Wireline, $80 for Consumer Wireline and $40 for Mobility) (see Note 14).

The increase in 2021 was primarily due to the recognition of $4,140 in actuarial gains, compared to losses of $4,169 in 2020, and the recognition of $1,405 of debt redemption costs in 2020. Also contributing to increased income in 2021 were higher net pension and postretirement benefit credits from higher prior service credit amortization (see Note 14).

Income tax expense decreased in 2022 and increased in 2021. The 2022 decrease was primarily driven by lower income before income tax offset by impairments of goodwill (see Note 9), which are not deductible for tax purposes.

The increase in 2021 was primarily due to 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 of divestitures in 2021.

Our effective tax rate was (122.2)% in 2022, 18.5% in 2021, and (329.9)% in 2020. The effective tax rate was impacted by our goodwill impairments associated with our Business Wireline, Consumer Wireline and Mexico reporting units in 2022, and Video goodwill impairment in 2020, which are 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. We also evaluate segment performance based on EBITDA and/or EBITDA margin, which is defined as operating income excluding depreciation and amortization. EBITDA is used as part of our management reporting and we believe EBITDA to be a relevant and useful measurement to our investors as it measures the cash generation potential of our business units. EBITDA does not give effect to depreciation and amortization expenses incurred in operating income 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.

In the first quarter of 2022, we reclassified into "Corporate" certain administrative costs borne by AT&T where the business units do not influence decision making to conform with the current period presentation. This recast increased Corporate operations and support expenses by approximately $270 and $1,310 for full-year 2021 and 2020, respectively. Correspondingly, this recast lowered administrative expenses for the Communications segment, with no change on a consolidated basis.

COMMUNICATIONS SEGMENT

				Percent Change	
	2022	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Segment Operating Revenues					
Mobility	**$ 81,780**	$ 78,254	$ 72,564	**4.5 %**	7.8 %
Business Wireline	**22,538**	23,937	25,083	**(5.8)**	(4.6)
Consumer Wireline	**12,749**	12,539	12,318	**1.7**	1.8
Total Segment Operating Revenues	**$ 117,067**	$ 114,730	$ 109,965	**2.0 %**	4.3 %
Segment Operating Income					
Mobility	**$ 24,528**	$ 23,370	$ 22,801	**5.0 %**	2.5 %
Business Wireline	**3,252**	4,027	4,799	**(19.2)**	(16.1)
Consumer Wireline	**1,327**	996	1,462	**33.2**	(31.9)
Total Segment Operating Income	**$ 29,107**	$ 28,393	$ 29,062	**2.5 %**	(2.3)%

Selected Subscribers and Connections

	December 31,		
(000s)	**2022**	2021	2020
Mobility subscribers	**217,397**	201,791	182,558
Total domestic broadband connections	**15,386**	15,504	15,384
Network access lines in service	**5,213**	6,177	7,263
U-verse VoIP connections	**2,930**	3,333	3,816

Operating revenues increased in 2022, 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 wireless service and equipment revenue growth and gains in broadband service. Business Wireline continues to reflect lower demand for legacy services and product simplification.

Operating income increased in 2022 and decreased in 2021. The 2022 operating income reflects an increase in operating income from our Mobility and Consumer Wireline business units, partially offset by declines in our Business Wireline business unit. Our Communications segment operating income margin was 24.9% in 2022, 24.7% in 2021 and 26.4% in 2020.

Communications Business Unit Discussion

Mobility Results

				Percent Change	
	2022	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Operating revenues					
Service	**$ 60,499**	$ 57,590	$ 55,542	**5.1 %**	3.7 %
Equipment	**21,281**	20,664	17,022	**3.0**	21.4
Total Operating Revenues	**81,780**	78,254	72,564	**4.5**	7.8
Operating expenses					
Operations and support	**49,054**	46,762	41,677	**4.9**	12.2
Depreciation and amortization	**8,198**	8,122	8,086	**0.9**	0.4
Total Operating Expenses	**57,252**	54,884	49,763	**4.3**	10.3
Operating Income	**$ 24,528**	$ 23,370	$ 22,801	**5.0 %**	2.5 %

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

Subscribers

				Percent Change	
(in 000s)	**2022**	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Postpaid	**84,700**	81,534	77,154	**3.9 %**	5.7 %
Postpaid phone	**69,596**	67,260	64,216	**3.5**	4.7
Prepaid	**19,176**	19,028	18,102	**0.8**	5.1
Reseller	**6,043**	6,113	6,535	**(1.1)**	(6.5)
Connected devices[1]	**107,478**	95,116	80,767	**13.0**	17.8
Total Mobility Subscribers[2]	**217,397**	201,791	182,558	**7.7 %**	10.5 %

[1] Includes data-centric devices such as session-based tablets, monitoring devices and primarily wholesale automobile systems.
[2] Wireless subscribers at December 31, 2022 excludes the impact of 10,176 subscriber and connected device disconnections resulting from our 3G network shutdown in February 2022. Postpaid disconnections were 897, including 437 phone, 234 prepaid, 749 reseller subscribers, and 8,296 connected devices.

Mobility Net Additions

				Percent Change	
(in 000s)	**2022**	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Postpaid Phone Net Additions	**2,868**	3,196	1,457	**(10.3) %**	— %
Total Phone Net Additions	**3,272**	3,850	1,640	**(15.0)**	—
Postpaid[2]	**4,091**	4,482	2,183	**(8.7)**	—
Prepaid	**479**	956	379	**(49.9)**	—
Reseller	**462**	(534)	(449)	**—**	(18.9)
Connected devices[3]	**20,594**	14,328	14,785	**43.7**	(3.1)
Mobility Net Subscriber Additions[1]	**25,626**	19,232	16,898	**33.2 %**	13.8 %
Postpaid Churn[4]	**0.97 %**	0.94 %	0.98 %	**3 BP**	(4) BP
Postpaid Phone-Only Churn[4]	**0.81 %**	0.76 %	0.79 %	**5 BP**	(3) BP

[1] Excludes migrations and acquisition-related additions during the period.
[2] In addition to postpaid phones, includes tablets and wearables and other. Tablet net adds (losses) were 203, 28 and (512) for the years ended December 31, 2022, 2021 and 2020, respectively. Wearables and other net adds were 1,020, 1,258 and 1,238 for the years ended December 31, 2022, 2021 and 2020, 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 approximately 9,980, 7,875 and 9,890 for the years ended December 31, 2022, 2021 and 2020, respectively.
[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, excluding the impact of disconnections resulting from our 3G network shutdown in February 2022.

Service revenue increased during 2022, largely due to growth from subscriber gains and postpaid average revenue per subscriber (ARPU) growth.

ARPU
ARPU increased in 2022 and reflects pricing actions, improved international roaming and customers shifting to higher priced unlimited plans, partially offset by 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 higher in 2022 due to a return to pre-pandemic customer behavior, as well as pricing actions and the resulting increase in both voluntary and involuntary disconnects.

Equipment revenue increased in 2022, primarily driven by a higher volume of devices sold and a mix of higher-priced postpaid smartphones.

Operations and support expenses increased in 2022, largely driven by growth in equipment sales and associated expenses, bad debt expense, higher network costs, the elimination of CAF II government credits, and higher HBO Max licensing fees and FirstNet costs. In the first quarter of 2022, we updated our analysis of economic lives of customer relationships and extended the amortization period of Mobility deferred customer contract costs, which decreased expense approximately $150.

Depreciation expense increased in 2022, primarily due to ongoing capital spending for network upgrades and expansion, partially offset by ceasing use of 3G network assets.

Operating income increased in 2022 and 2021. Our Mobility operating income margin was 30.0% in 2022, 29.9% in 2021 and 31.4% in 2020. Our Mobility EBITDA margin was 40.0% in 2022, 40.2% in 2021 and 42.6% in 2020.

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. 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.

Business Wireline Results

				Percent Change	
	2022	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Operating revenues					
Service	**$ 21,891**	$ 23,224	$ 24,313	**(5.7)%**	(4.5)%
Equipment	**647**	713	770	**(9.3)**	(7.4)
Total Operating Revenues	**22,538**	23,937	25,083	**(5.8)**	(4.6)
Operating expenses					
Operations and support	**13,972**	14,718	15,068	**(5.1)**	(2.3)
Depreciation and amortization	**5,314**	5,192	5,216	**2.3**	(0.5)
Total Operating Expenses	**19,286**	19,910	20,284	**(3.1)**	(1.8)
Operating Income	**$ 3,252**	$ 4,027	$ 4,799	**(19.2)%**	(16.1)%

Service revenues decreased in 2022, driven by lower demand for legacy voice and data services and product simplification. Also contributing to the decline was lower revenues from the government sector. We expect these trends to continue. Partially offsetting revenue declines was growth in connectivity services and revenues of approximately $200 from intellectual property sales in 2022.

Equipment revenues decreased in 2022, driven by declines in legacy and non-core services which we expect to continue.

Operations and support expenses decreased in 2022, primarily due to our continued efforts to drive efficiencies in our network operations through automation, reductions in customer support expenses through

digitization and proactive rationalization of low profit margin products, and lower personnel costs associated with ongoing transformation initiatives. Expense declines were also driven by credits from a third-quarter 2022 retirement benefit plan change and lower amortization of deferred fulfillment costs, including our first-quarter 2022 updates to the estimated economic lives of subscribers, which decreased expense approximately $115 in 2022. The declines were partially offset by higher wholesale access network costs. As part of our transformation activities, we expect continued operations and support expense improvements into 2023 as we further size our operations in alignment with the strategic direction of the business.

Depreciation expense increased in 2022, primarily due to ongoing capital investment for strategic initiatives such as fiber and network upgrades and expansion, partially offset by updates to extend the estimated lives of our fiber assets (see Note 7).

Operating income decreased in 2022 and 2021. Our Business Wireline operating income margin was 14.4% in 2022, 16.8% in 2021 and 19.1% in 2020. Our Business Wireline EBITDA margin was 38.0% in 2022, 38.5% in 2021 and 39.9% in 2020.

Consumer Wireline Results

				Percent Change	
	2022	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Operating revenues					
Broadband	**$ 9,669**	$ 9,085	$ 8,534	**6.4 %**	6.5 %
Legacy voice and data services	**1,746**	1,977	2,213	**(11.7)**	(10.7)
Other service and equipment	**1,334**	1,477	1,571	**(9.7)**	(6.0)
Total Operating Revenues	**12,749**	12,539	12,318	**1.7**	1.8
Operating expenses					
Operations and support	**8,253**	8,448	7,942	**(2.3)**	6.4
Depreciation and amortization	**3,169**	3,095	2,914	**2.4**	6.2
Total Operating Expenses	**11,422**	11,543	10,856	**(1.0)**	6.3
Operating Income	**$ 1,327**	$ 996	$ 1,462	**33.2 %**	(31.9)%

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

Connections

				Percent Change	
(in 000s)	**2022**	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Broadband Connections					
Total Broadband and DSL Connections	**13,991**	14,160	14,100	**(1.2)%**	0.4 %
Broadband	**13,753**	13,845	13,693	**(0.7)**	1.1
Fiber Broadband Connections	**7,215**	5,992	4,951	**20.4**	21.0
Voice Connections					
Retail Consumer Switched Access Lines	**2,028**	2,423	2,862	**(16.3)**	(15.3)
U-verse Consumer VoIP Connections	**2,311**	2,736	3,231	**(15.5)**	(15.3)
Total Retail Consumer Voice Connections	**4,339**	5,159	6,093	**(15.9)%**	(15.3)%

Broadband Net Additions

				Percent Change	
(in 000s)	**2022**	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Total Broadband and DSL Net Additions	**(169)**	60	(19)	**— %**	— %
Broadband Net Additions	**(92)**	152	95	**—**	60.0
Fiber Broadband Net Additions	**1,223**	1,041	1,064	**17.5 %**	(2.2)%

Broadband revenues increased in 2022, driven by an increase in fiber customers, which we expect to continue for the foreseeable future as we invest further in building our fiber footprint, partially offset by declines in copper-based broadband services.

Legacy voice and data service revenues decreased in 2022, reflecting the continued decline in the number of customers, which we expect to continue.

Other service and equipment revenues decreased in 2022, reflecting the continued decline in the number of VoIP customers, which we expect to continue.

Operations and support expenses decreased in 2022, primarily driven by lower network and customer support costs, credits from a third-quarter 2022 retirement benefit plan change and lower HBO Max licensing fees. Also contributing to the decline was lower amortization of deferred fulfillment costs, including our first-quarter 2022 updates to the estimated economic lives of broadband/fiber subscribers, which decreased expenses approximately $130 in 2022. These declines were partially offset by the elimination of CAF II government credits, higher bad debt expense and advertising costs.

Depreciation expense increased in 2022, primarily due to ongoing capital investment for strategic initiatives such as fiber and network upgrades and expansion, partially offset by updates to the estimated lives of our fiber assets (see Note 7).

Operating income increased in 2022 and decreased in 2021. Our Consumer Wireline operating income margin was 10.4% in 2022, 7.9% in 2021 and 11.9% in 2020. Our Consumer Wireline EBITDA margin was 35.3% in 2022, 32.6% in 2021 and 35.5% in 2020.

LATIN AMERICA SEGMENT

				Percent Change	
	2022	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Operating revenues					
Service	**$ 2,162**	$ 1,834	$ 1,656	**17.9 %**	10.7 %
Equipment	**982**	913	906	**7.6**	0.8
Total Operating Revenues	**3,144**	2,747	2,562	**14.5**	7.2
Operating expenses					
Operations and support	**2,812**	2,652	2,636	**6.0**	0.6
Depreciation and amortization	**658**	605	513	**8.8**	17.9
Total Operating Expenses	**3,470**	3,257	3,149	**6.5**	3.4
Operating Income (Loss)	**$ (326)**	$ (510)	$ (587)	**36.1 %**	13.1 %

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

Subscribers

				Percent Change	
(in 000s)	**2022**	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Postpaid	**4,925**	4,807	4,696	**2.5 %**	2.4 %
Prepaid	**16,204**	15,057	13,758	**7.6**	9.4
Reseller	**474**	498	489	**(4.8)**	1.8
Mexico Wireless Subscribers	**21,603**	20,362	18,943	**6.1 %**	7.5 %

Mexico Wireless Net Additions

				Percent Change	
(in 000s)	**2022**	2021	2020	**2022 vs. 2021**	2021 vs. 2020
Postpaid	**118**	111	(407)	**6.3 %**	— %
Prepaid	**1,147**	1,299	174	**(11.7)**	—
Reseller	**(24)**	9	118	**—**	(92.4)
Mexico Wireless Net Additions	**1,241**	1,419	(115)	**(12.5)%**	— %

Service revenues increased in 2022, reflecting growth in wholesale services, subscribers and ARPU.

Equipment revenues increased in 2022, due to higher equipment sales.

Operations and support expenses increased in 2022, due to higher acquisition costs, bad debt and network expenses. Approximately 5% of Mexico expenses are U.S. dollar-based, with the remainder in the local currency.

Depreciation expense increased in 2022, reflecting higher in-service assets.

Operating income improved in 2022 and 2021. Our Mexico operating income margin was (10.4)% in 2022, (18.6)% in 2021 and (22.9)% in 2020. Our Mexico EBITDA margin was 10.6% in 2022, 3.5% in 2021 and (2.9)% in 2020.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

2023 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 believe 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 multi-gig offerings will drive greater demand for broadband services on our fast-growing fiber network.

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 businesses. 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 rationalize our product portfolio with a longer-term shift of the business to fiber and mobile connectivity, and growth in value-added services.

2023 Expense Trends We expect the spending required to support growth initiatives, primarily our continued deployment of fiber and 5G to pressure expense trends in 2023. To the extent customers further upgrade their handsets in 2023, the expenses associated with those device sales are expected to contribute to higher costs. During 2023, we will also continue to prioritize efficiency, led by our cost transformation initiative. 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. 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 volatility and contraction in 2022. Several factors, including the continued impact from 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 2023 as we respond to the geopolitical and macroeconomic environment and our 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 2023. 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 2023 (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.

Internet The FCC currently classifies fixed and mobile consumer broadband services as information services, subject to light-touch regulation. However, some states have adopted legislation or issued executive orders that would reimpose net neutrality rules repealed by the FCC. Suits were filed concerning such laws in California and Vermont. The California suit was dismissed without prejudice on May 4, 2022, and the California statute is now in effect. The litigation challenging the Vermont statute has been stayed pending the Second Circuit's disposition of an appeal by the State of New York of an order enjoining enforcement of a New York statute regulating broadband rates on the ground that such statute is preempted by federal law. We expect additional states may seek to impose net neutrality requirements in the future.

On November 15, 2021, the Infrastructure Investment and Jobs Act (IIJA) was signed 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 established initial requirements for this program in May 2022 and is expected to announce state grant allocations in 2023.

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 have resulted 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. The FCC has 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. During 2020-2021, we have also deployed 5G nationwide on "low band" spectrum on macro towers. Executing on the recent spectrum purchase, we announced ongoing construction and continuing deployment of 5G on C-band spectrum in 2022 and beyond.

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 2023, our key initiatives include:

- Continuing our wireless subscriber momentum and 5G deployment, with expansion of 5G service, including to underpenetrated markets.
- Improving fiber penetration, accelerating subscriber growth and increasing broadband revenues.
- Continuing to drive 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, 2022, we served 239 million wireless subscribers in North America, with more than 217 million in the United States.

Our LTE technology covers over 441 million people in North America, and in the United States, we cover all major metropolitan areas and over 337 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, 2022, our network covers more than 285 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. At December 31, 2022, we provided LTE coverage to over 104 million people in Mexico.

Integration of Data and Broadband Services 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 2022. 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) services 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 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 there were 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 were filed concerning such laws in California and Vermont. The California suit was dismissed without prejudice on May 4, 2022, and the California statute is now in effect. The litigation challenging the Vermont statute has been stayed pending the Second Circuit's disposition of an appeal by the State of New York of an order enjoining enforcement of a New York statute regulating broadband rates on the ground that such statute is preempted by federal law. We expect additional states may seek to impose net neutrality requirements in the future.

On November 15, 2021, President Biden signed the IIJA into law. The legislation appropriates funds to support broadband deployment and adoption. The NTIA is responsible for distributing the majority of these funds primarily through state grants for broadband deployment projects in unserved and underserved areas, and to a lesser extent for middle mile broadband infrastructure, and digital equity programs. On May 13, 2022, NTIA issued three Notices of Funding Opportunity for these initiatives – the Broadband Equity, Access, and Deployment Program, the Enabling Middle Mile Broadband Infrastructure Program, and the State Digital Equity Program. NTIA will continue to administer and implement these programs. The IIJA also appropriated funds for establishment of the ACP, an FCC-administered monthly, low-income

broadband benefit program, replacing the Emergency Broadband Benefit program. Qualifying customers can receive reimbursements 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 have resulted 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 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 2022, we have also deployed 5G nationwide on "low band" spectrum on macro towers. Executing on the recent spectrum purchase, we continued deploying 5G nationwide on "low band" spectrum.

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 available for deployment in December 2021, with the remainder available for deployment no later than 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 launched in 2022 and 220 MHz away from spectrum AT&T plans to launch in 2023. 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. These measures have been subsequently modified from time to time. We continue to work with the FAA to reduce the temporary measures with C-band deployments as aircraft equipment is upgraded.

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 previously 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 3.45 GHz spectrum nationwide at a cost of $9,079.

COMPETITION

Competition continues to increase for communications 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 three 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).

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.

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.

Pension and Postretirement Benefits Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 14. Our assumed weighted-average discount rates for both pension and postretirement benefits of 5.20%, at December 31, 2022, 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 generally not callable, convertible or index linked. For the year ended December 31, 2022, when compared to the year ended December 31, 2021, we increased our pension discount rate by 2.20%, resulting in a decrease in our pension plan benefit obligation of $11,738, and increased our postretirement discount rate by 2.40%, resulting in a decrease in our postretirement benefit obligation of $2,102.

Our expected long-term rate of return was 6.75% on pension plan assets and 4.50% on postretirement plan assets for 2022. We have increased our expected return on plan assets to 7.50% on pension plan assets and 6.50% on postretirement plan assets for 2023, reflecting higher long-term capital market expectations for equities and higher yields for bonds. 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 2023 combined pension and postretirement cost to increase $201, which under our accounting policy would be adjusted to actual returns in the current year upon 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 14 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 $2,653 in our 2022 depreciation expense and that a one-year decrease would have resulted in an increase of approximately $3,778 in our 2022 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, revenue per user, capital investment and acquisition costs per subscriber, 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.

As of October 1, 2022, the calculated fair value of the Mobility reporting unit exceeded its book value and no additional testing was necessary. If either the projected rate of long-term growth of Mobility cash flows or revenues declined by 0.5%, or if the weighted average cost of capital increased by 0.5%, the fair value would still be higher than the book value of the goodwill. In the event of a 10% drop in the fair value of the Mobility reporting unit, the fair value still would have exceeded the book value of the reporting unit.

Our 2022 annual goodwill impairment analysis resulted in noncash impairment charges related to our Business Wireline, Consumer Wireline and Mexico reporting units. The decline in fair values was primarily due to changes in the macroeconomic environment, namely increased weighted-average cost of capital. Also, inflation pressure and lower projected cash flows driven by secular declines, predominantly at Business Wireline, impacted the fair values. Future sustained declines in macroeconomic or business conditions, or higher discount rates or declines in the value of AT&T stock could result in goodwill impairment charges in future periods. A summary of business unit goodwill impairment by segment and sensitivity analysis is as follows:

	Communications		Latin America
	Business Wireline	Consumer Wireline	Mexico
Goodwill as of October 1, 2022:	$ 17,903	$ 30,155	$ 826
Impairment charge	(13,478)	(10,508)	(826)
Remaining Goodwill at December 31, 2022	$ 4,425	$ 19,647	$ —
Sensitivity analysis, approximate hypothetical impairment charge:			
Weighted-average cost of capital increase of 25 BP	$ 1,200	$ 2,200	$ —
Projected terminal growth rate decline of 25 BP	700	1,400	—
Projected long-term EBITDA margin decline of 100 BP	1,500	1,300	—

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 corroborative market approach based on auction prices, depending upon auction activity. The Greenfield Approach assumes a company initially owns only the wireless licenses and makes investments required to build an operation comparable to current use. 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 9.50%, 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).

Income Taxes Our estimates of income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 13 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 Auctions 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 paid the remaining $8,956 in the first quarter of 2022, for a total of $9,079. We received the licenses in May 2022, and classified the auction deposits and related capitalized interest as "Licenses – Net" on our December 31, 2022 consolidated balance sheet.

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 $1,100 of compensable relocation costs over the next several years as the spectrum is being cleared by satellite operators, of which we paid $650 in the fourth quarter of 2021 and $98 in the third quarter of 2022.

WarnerMedia On April 8, 2022, we completed the separation and distribution of our WarnerMedia business, and merger of Magallanes, Inc. (Spinco), an AT&T subsidiary formed to hold the WarnerMedia business, with a subsidiary of Discovery, Inc., which was renamed Warner Bros. Discovery, Inc. (WBD). Each AT&T shareholder was entitled to receive 0.241917 shares of WBD common stock for each share of AT&T common stock held as of the record date, which represented approximately 71% of WBD. In connection with and in accordance with the terms of the Separation and Distribution Agreement (SDA), prior to the distribution and merger, AT&T received approximately $40,400, which includes $38,800 of Spinco cash and $1,600 of debt retained by WarnerMedia. During the second quarter of 2022, assets of approximately $121,100 and liabilities of $70,600 were removed from our balance sheet as well as $45,041 of retained earnings and $5,632 of additional paid-in capital associated with the transaction. Additionally, in August 2022, we and WBD finalized the post-closing adjustment, pursuant to Section 1.3 of the SDA, which resulted in a $1,200 payment to WBD in the third quarter of 2022 and was reflected in the December 31, 2022 balance sheet as an adjustment to additional paid-in capital. The payment is accounted for as cash used in financing activities in our statement of cash flows in third quarter of 2022. (See Note 6)

AT&T, Spinco and Discovery entered into a Tax Matters Agreement, which governs the parties' rights, responsibilities and obligations with respect to tax liabilities and benefits, the preservation of the expected tax-free status of the transactions contemplated by the SDA, and other matters regarding taxes.

Additionally, we entered into an adjusted HBO Max agreement with WBD that provides us with expanded distribution rights and additional flexibility to market and sell the service in a cost-efficient manner. Under the terms of the agreement, beginning June 1, 2022, we are permitted to include HBO Max in our customer offerings in exchange for a licensing fee. Furthermore, AT&T has the right, but not the obligation, to market and distribute HBO Max to its customers in plans, bundles, and promotional offers.

Xandr On June 6, 2022, we completed the sale of the marketplace component of Xandr to Microsoft Corporation. Xandr was reflected in our historical financial statements as discontinued operations. (See Note 6)

Gigapower, LLC On December 22, 2022, we agreed to form Gigapower, LLC (Gigapower), a joint venture with BlackRock Alternatives, to provide a fiber network to Internet service providers and other businesses across the U.S. that serve customers outside of our traditional 21-state wireline footprint. The transaction is subject to customary closing conditions, including regulatory approvals. Upon closing the joint venture, we expect to deconsolidate Gigapower's operations.

Labor Contracts As of January 31, 2023, we employed approximately 160,700 persons. Approximately 42% 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 7,000 Mobility employees in nine states, for which we reached tentative agreement in February 2023.
- A contract covering approximately 400 employees supporting internet-based products is set to expire in July 2023.
- A contract covering approximately 200 Mobility employees in Illinois is set to expire in May 2023.

Inflation Reduction Act The Inflation Reduction Act of 2022 (Inflation Reduction Act) was enacted on August 16, 2022. The Inflation Reduction Act imposes a new 15% corporate alternative minimum tax (CAMT) on "applicable corporations" for taxable years beginning after December 31, 2022. The CAMT is imposed to the extent the alternative minimum tax exceeds a company's regular tax liability. A corporation that pays alternative minimum tax is eligible for a credit against income tax in future years. Subject to future regulatory guidance, we currently do not believe the CAMT will have a material impact on our 2023 tax liability.

OECD On October 8, 2021, the Organization for Economic Co-operation and Development (OECD) announced the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting which agreed to a two-pillar solution to address tax challenges arising from digitalization of the economy. On December 20, 2021, the OECD released Pillar Two Model Rules defining the global minimum tax, which calls for the taxation of large corporations at a minimum rate of 15%. The OECD continues to release additional guidance on the two-pillar framework with widespread implementation anticipated by 2024. There can be no assurance that these new rules will not increase our taxes in these countries and have an adverse impact on our provision for income taxes, when enacted or enforced by participating countries in which we do business.

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

Continuing operations for the years ended December 31,	**2022**	2021	2020
Cash provided by operating activities	**$ 35,812**	$ 37,170	$ 37,484
Cash used in investing activities	**(26,899)**	(32,489)	(13,447)
Cash (used in) provided by financing activities	**(59,564)**	1,894	(31,031)

At December 31,	**2022**	2021
Cash and cash equivalents	**$ 3,701**	$ 19,223
Total debt	**135,890**	175,631

We had $3,701 in cash and cash equivalents available at December 31, 2022, decreasing $15,522 since December 31, 2021 and returning to historical levels with the close of the WarnerMedia/Discovery transaction. Cash and cash equivalents included cash of $866 and money market funds and other cash equivalents of $2,835. Approximately $1,045 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.

In 2022, cash inflows were primarily provided by cash receipts from operations, including cash from our sale and transfer of our receivables to third parties, cash received in connection with the separation and distribution of the WarnerMedia business, issuance of commercial paper and long-term debt and distributions from DIRECTV. These inflows were exceeded 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, repayment of short-term borrowings and long-term debt, and dividend payments to stockholders. We maintain availability under our credit facilities and our commercial paper program to meet our short-term liquidity requirements.

Refer to "Contractual Obligations" discussion below for additional information regarding our cash requirements.

Cash Provided by Operating Activities from Continuing Operations

During 2022, cash provided by operating activities was $35,812 compared to $37,170 in 2021, reflecting the separation of DIRECTV and working capital impacts, including higher payments for wireless devices tied to accelerated subscriber growth.

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 the stated payment terms by 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 $851 in 2022 and $25 in 2021. All supplier financing payments are due within one year.

Cash Used in or Provided by Investing Activities from Continuing Operations

During 2022, cash used in investing activities totaled $26,899, consisting primarily of $19,626 (including interest during construction) for capital expenditures, and $10,200 for acquisitions of licenses won in Auction 110 and associated capitalized interest. In 2022, we received a return of investment of $2,649 from DIRECTV representing distributions in excess of cumulative equity in earnings from DIRECTV (see Note 10).

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 $4,697 in 2022, compared to $4,596 in 2021. Capital expenditures in 2022 were $19,626, and when including $4,697 cash paid for vendor financing, capital investment was $24,323 ($4,182 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 2022, we placed $5,817 of equipment in service under vendor financing arrangements (compared to $5,282 in 2021) and approximately $320 of assets related to the FirstNet build (compared to $750 in 2021). Total reimbursements from the government for FirstNet were approximately $260 for 2022 and $865 for 2021.

The amount of our capital expenditures is influenced by demand for services and products, capacity needs and network enhancements. Our capital expenditures and vendor financing payments were elevated in 2022, reflecting strategic investments. In 2023, we expect that our capital investment, which includes capital expenditures and cash paid for vendor financing, will be consistent with 2022 levels.

Cash Used in or Provided by Financing Activities from Continuing Operations

In 2022, cash used in financing activities totaled $59,564 and was comprised of debt issuances and repayments, payments of dividends, and vendor financing payments. We also paid approximately $1,211 in cash on the note payable to DIRECTV, with $130 due as of December 31, 2022 (see Note 19).

A tabular summary of our debt activity during 2022 is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year 2022
Net commercial paper borrowings	$ 1,471	$ (5,219)	$ (724)	$ (1,337)	$ (5,809)
Issuance of Notes and Debentures:					
Private Financing	$ —	$ —	$ 750	$ —	$ 750
2025 Term Loan	—	—	—	2,500	2,500
Other	479	—	—	—	479
Debt Issuances	$ 479	$ —	$ 750	$ 2,500	$ 3,729
Repayments:					
2021 Syndicated Term Loan	$ —	$ (7,350)	$ —	$ —	$ (7,350)
BAML Bilateral Term Loan - Tranche A	—	(1,000)	—	—	(1,000)
Private financing	—	(750)	—	(750)	(1,500)
Repayments of other short-term borrowings	$ —	$ (9,100)	$ —	$ (750)	$ (9,850)
USD notes[1, 2, 3]	$ (123)	$ (18,957)	$ —	$ (287)	$ (19,367)
Euro notes	—	(3,343)	—	—	(3,343)
BAML Bilateral Term Loan - Tranche B	—	(1,000)	—	—	(1,000)
Other	(667)	(123)	(199)	(419)	(1,408)
Repayments of long-term debt	$ (790)	$ (23,423)	$ (199)	$ (706)	$ (25,118)

[1] On April 11, 2022, we issued notices for the redemption in full of all of the outstanding approximately $9,042 aggregate principal amount of various global notes due 2022 to 2026 with coupon rates ranging from 2.625% to 4.450% (Make-Whole Notes). The Make-Whole Notes were redeemed on the redemption dates set forth in the notices of redemption, at "make whole" redemption prices calculated as set forth in the respective redemption notices in the second quarter.

[2] Includes $7,954 of cash paid toward the $8,822 aggregate principal amount of various notes that were tendered for cash in May 2022. The notes had interest rates ranging between 3.100% and 8.750% and original maturities ranging from 2026 to 2061.

[3] Includes $287 of principal repayment on a $592 zero coupon note that matured in November 2022. The other $305 was applied to operating cash flows related to interest expense that accreted to the note over its life.

The weighted average interest rate of our long-term debt portfolio, including credit agreement borrowings and the impact of derivatives, was approximately 4.1% as of December 31, 2022 and 3.8% as of December 31, 2021. We had $133,207 of total notes and debentures outstanding at December 31, 2022, which included Euro, British pound sterling, Canadian dollar, Mexican peso, Australian dollar, and Swiss franc denominated debt that totaled approximately $35,525.

At December 31, 2022, we had $7,467 of debt maturing within one year, consisting of $866 of commercial paper borrowings and $6,601 of long-term debt issuances.

During 2022, we paid $4,697 of cash under our vendor financing program, compared to $4,596 in 2021. Total vendor financing payables included in our December 31, 2022 consolidated balance sheet were $6,147, with $4,592 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, 2022, we had approximately 144 million shares remaining from our share repurchase authorizations approved by the Board of Directors in 2014. During 2022, we repurchased approximately 34 million shares under the March 2014 authorization.

We paid dividends on common shares and preferred shares of $9,859 in 2022, compared with $15,068 in 2021. Dividends on common stock declared by our Board of Directors, on a quarterly basis, totaled $1.11 per share in 2022 and $2.08 per share in 2021. 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 common share, or approximately $8,000 per year, following the close of the WarnerMedia/Discovery transaction.

In the fourth quarter of 2022, all outstanding AT&T Mobility II LLC (Mobility preferred interests) were put to us (approximately $8,000), with approximately one-third

redeemed in the fourth quarter; approximately 107 million interests are expected to be redeemed primarily in October 2023 and 107 million redeemed in October 2024, per the terms of the agreement, unless the interests are called or the puts are accepted by AT&T prior to those dates. With the certainty of redemption, the remaining Mobility preferred interests were reclassified from equity to a liability at fair value, with approximately $2,670 recorded in current as "Accounts payable and accrued liabilities" and $2,670 recorded in "Other noncurrent liabilities." In the fourth quarter of 2022, we paid approximately $2,600 cash to redeem the Mobility preferred interests put to us on October 24, 2022. (See Note 16)

Our 2023 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 2022, we terminated one of our revolving credit agreements and amended and restated the other. We currently have one $12,000 revolving credit agreement that terminates on November 18, 2027 (Revolving Credit Agreement). No amounts were outstanding as of December 31, 2022.

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 were terminated. In the first quarter of 2022, the maturity date of the 2021 Syndicated Term Loan was extended to December 31, 2022. On April 13, 2022, the 2021 Syndicated Term Loan was paid off and terminated.

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. On April 13, 2022, the BAML Bilateral Term Loan was paid off and terminated.

In November 2022, we entered into and drew on a $2,500 term loan agreement due February 16, 2025 (2025 Term Loan), with Mizuho Bank, Ltd., as agent. As of December 31, 2022, $2,500 was outstanding under this agreement.

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. Our Revolving Credit Agreement and 2025 Term Loan include a net debt-to-EBITDA financial ratio covenant requiring AT&T to maintain, as of the last day of each fiscal quarter, a ratio of not more than 3.75-to-1. Other loan agreements include 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, 2022, 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 the majority of our approximately $38,800 derivative portfolio, counterparties are still required to post collateral. During 2022, we posted approximately $760 of cash collateral, on a net basis. Cash postings under these arrangements vary with changes in credit ratings and netting agreements. (See Note 12)

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, 2022, our debt ratio was 56.1%, compared to 48.9% at December 31, 2021 and 46.4% at December 31, 2020. The debt ratio is affected by the same factors that affect total capital, and reflects our recent debt issuances, repayments and reclassifications related to redemption of noncontrolling interests.

A significant amount of our cash outflows for continuing operations 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 2022 and 2021, were $16,630 and $17,119. 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 $10,200 in 2022, $25,400 in 2021 and $2,800 in 2020.
- Total health and welfare benefits provided to certain active and retired employees and their dependents totaled approximately $3,200 in 2022 and $3,390 in 2021, with $788 paid from plan assets in 2022 compared to $1,163 in 2021. Of those benefits, approximately $2,840 related to medical and prescription drug benefits in 2022 compared to $2,990 in 2021. In addition, in 2022, we prefunded $500 for future benefit payments versus $685 in 2021. We paid $5,854 of pension benefits out of plan assets in 2022 compared to $5,942 in 2021.

Contractual Obligations

Our contractual obligations as of December 31, 2022, 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]	$ 147,673	$ 6,929	$ 14,898	$ 14,897	$ 110,949
Interest payments on long-term debt[2]	101,559	6,062	10,910	9,818	74,769
Purchase obligations[3]	27,015	12,313	11,424	2,457	821
Operating lease obligations[4]	26,468	4,657	7,746	5,132	8,933
FirstNet sustainability payments[5]	17,205	195	390	3,255	13,365
Unrecognized tax benefits[6]	8,323	486	—	—	7,837
Other finance obligations[7]	13,788	5,391	2,830	1,787	3,780
Mobility preferred interests[8]	5,340	2,670	2,670	—	—
Total Contractual Obligations	$ 347,371	$ 38,703	$ 50,868	$ 37,346	$ 220,454

[1] Represents principal or payoff amounts of notes, debentures and credit agreement borrowings at maturity (see Note 11). 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 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 21)

[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 20)

[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 13).

[7] Represents future minimum payments under the Crown Castle and other arrangements (see Note 18), payables subject to extended payment terms (see Note 22), finance lease payments (see Note 8) and note payable to DIRECTV (see Note 19).

[8] See Note 16.

Certain items were excluded from this table because the year of payment is unknown and could not be reliably estimated, we believe the obligations are immaterial, or the settlement of the obligation will not require the use of cash. These items include: deferred income tax liability of $57,032 (see Note 13); net postemployment benefit obligations of $8,433 (including current portion); and other noncurrent liabilities of $11,035.

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 11 and 12. 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, 2022.

Foreign Exchange Risk

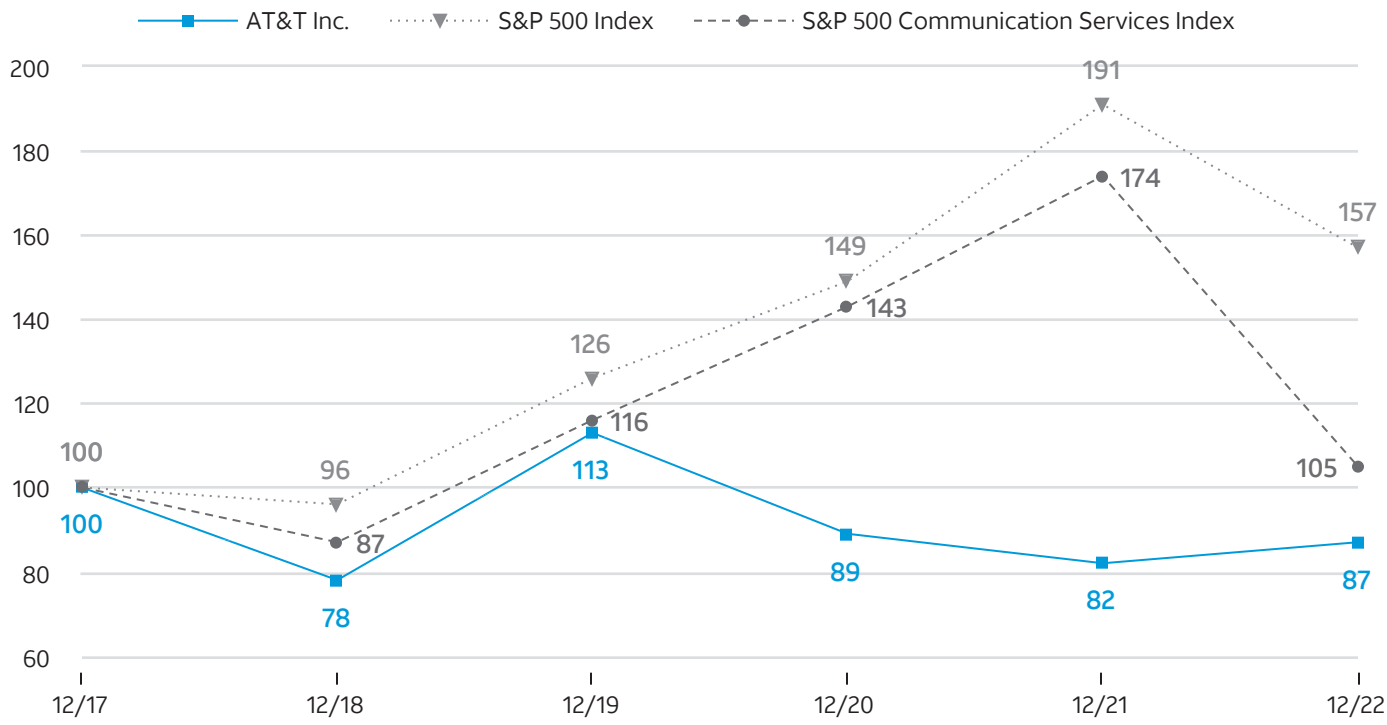
We principally use foreign exchange contracts to hedge costs and debt denominated in foreign currencies. We are also exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies.

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 $38,213 and a fair value of $(5,982) outstanding at December 31, 2022.

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 $617 and a fair value of $(23) outstanding at December 31, 2022.

STOCK PERFORMANCE GRAPH

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



The comparison above assumes $100 invested on December 31, 2017, in AT&T common stock and the following Standard & Poor's (S&P) Indices: S&P 500 Index and S&P 500 Communication 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, rising inflation 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, in part due to inflation, 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, an increase in our benefit obligations, and higher than assumed medical and prescription drug costs will increase expenses.

The Financial Accounting Standards Board (FASB) 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.

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.

Beginning in 2021 and continuing through the early part of 2023, the costs of these inputs and the costs of labor necessary to develop, deploy and maintain our networks and our products and services 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. Inflationary and supply pressures may continue into the future and could have an adverse impact on our ability to source materials.

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 a period of inflationary pressure or 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 2022, uncertainty surrounding global growth rates, inflation, an increasing interest rate environment 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 the London Interbank Offering Rate (LIBOR), has announced that it intends to phase out LIBOR in 2023. Although our securities and other debt obligations 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 increase our exposure to political instability, to changes in the international economy and to regulation on our business and these risks could offset our expected growth opportunities.

We have international operations, particularly in Mexico, and other countries worldwide where we need to comply with a wide variety of complex local laws, regulations and treaties. In addition, we are exposed to, among other factors, fluctuations in currency values, changes in relationships between U.S. and foreign governments, war or other hostilities, and other regulations that may materially affect our earnings. Involvement with foreign firms also 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 related to 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. These effects include, but are not limited to closure of retail stores; impact on our customers' ability to pay for our products and services; reduction in international roaming revenue; and reduced staffing levels in call centers and field operations. 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 supply chains and economic conditions. These impacts could affect our network development, deployment and maintenance, and the 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.

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 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. These measures have been subsequently modified from time to time. 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, including, 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 and learn 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.

We have spent, and plan to continue spending, significant capital and other resources on the ongoing development and deployment of our 5G and fiber wireline networks. This deployment and other network service enhancements and product launches may not occur as scheduled or at the cost expected due to many factors, including unexpected inflation, 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, our 5G and fiber offerings fail to gain acceptance in the marketplace or we otherwise fail to 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 or promotional 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 inadequate to take advantage of business opportunities, which may materially adversely affect our operations.

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. 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, 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. 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. We currently are, 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.

Company-Specific Financial Factors:

Customer adoption of new software-based technologies may require higher quality services from us, and meeting these demands could create supply chain issues and could increase capital costs.

The communications industry has experienced rapid changes in the past several years. An increasing number of our customers are using mobile devices as their primary means of viewing video. 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 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 or cost effective basis, or fail to meet our performance expectations, for a number of reasons, including difficulties in obtaining export licenses for certain technologies, inflationary pressures, inability to secure component parts, general business disruption, natural disasters, safety issues, economic and political instability, including the outbreak of war and other hostilities, and public health emergencies such as the COVID-19 pandemic. These factors have caused, and may again cause, delays in the development, manufacturing (including the sourcing of key components) and shipment of products to the extent that we or our suppliers are impacted. In certain limited circumstances, suppliers have

been unable to supply products in a timely fashion, affecting our ability 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 or be unable to meet customer demand for certain products or services. 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 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.

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, including the WarnerMedia/Discovery Transaction, 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). 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.

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, breach of contract, 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 impacting our networks or systems may have a material adverse affect on our operations.

Cyberattacks, including through the use of malware, computer viruses, distributed denial of services attacks, ransomware attacks, credential harvesting, social engineering and other means for obtaining unauthorized access to or disrupting the operation of our networks and systems and those of our suppliers, vendors and other service providers, could have a material adverse effect on our operations. Cyberattacks can cause equipment or network failures, loss of information, including sensitive personal information of customers or employees or proprietary information, as well as disruptions to our or our customers', suppliers' or vendors' operations, which could result in significant expenses, potential investigations and legal liability, a loss of current or future customers and reputational damage. Our wired network in particular is becoming increasingly reliant on software as it evolves to handle growing demands for video transmission. Cyberattacks against companies, including the Company and its suppliers and vendors, have occurred and will continue to occur and have increased in frequency, scope and potential harm in recent years. The development and maintenance of systems to prevent such attacks is costly and requires ongoing monitoring and updating. While, to date, we have not been subject to cyberattacks that, individually or in the aggregate, have been material to our operations or financial condition, the preventive actions we take to reduce the risks associated with cyberattacks may be insufficient to repel or mitigate the effects of a major cyberattack in the future.

Natural disasters, extreme weather conditions or terrorist or other hostile acts could cause damage to our infrastructure and result in significant disruptions to our operations.

Our business operations could be subject to interruption by equipment failures, power outages, terrorist or other hostile acts, and natural disasters, such as flooding, hurricanes and forest fires, whether caused by discrete severe weather events and/or precipitated by long-term climate change. Such events could cause significant damage to the infrastructure upon which our business operations rely, resulting in degradation or disruption of service to our customers, as well as significant recovery time and expenditures to resume operations. Our system redundancy and other measures we take to protect our infrastructure and operations from the impacts of such events may be ineffective or inadequate to sustain our operations through all such events. Any of these occurrences could result in lost revenues from business interruption, damage to our reputation and reduced profits.

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 the 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 and the Inflation Reduction Act of 2022) may be uncertain and subject to differing interpretations, especially when evaluated against ever changing products and services provided by our global telecommunications 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.

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 under audit, then we could be subject to significant tax liability.

In connection with the WarnerMedia/Discovery Transaction, AT&T received a favorable Private Letter Ruling from the IRS. Nonetheless, 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 the facts, representations or undertakings made in connection with the request for the ruling were incorrect or are violated. We may be entitled to indemnification from Warner Bros. Discovery (Warner Bros.) in the case of certain breaches of representations or undertakings by Warner Bros. 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 Warner Bros., and such indemnification is subject to Warner Bros.' 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.

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 or war or other hostilities in the markets served by us or in countries in which we have investments and/or operations, including inflationary pressures, 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; rules concerning digital discrimination; competition policy; privacy; net neutrality; 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.
- U.S. and foreign laws and regulations regarding intellectual property rights protection and privacy, personal data protection and user consent, which 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.
- Our ability to compete in an increasingly competitive industry and against competitors that can 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, vendor fraud, economic and political instability, including the outbreak of war or other hostilities, and public health emergencies.
- The continued development and delivery of attractive and profitable wireless, and broadband offerings and devices; 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.
- The availability and cost and our ability to adequately fund additional wireless spectrum and network development, deployment and maintenance; 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 or cyber incidents; 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 or other climate related events including flooding and hurricanes, natural disasters including earthquakes and forest fires, pandemics, energy shortages, wars or terrorist attacks.
- The issuance by the FASB or other accounting oversight bodies of new accounting standards or changes to existing standards.
- Our response 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, 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

	2022	2021	2020
Operating Revenues			
Service	**$ 97,831**	$ 111,565	$ 124,057
Equipment	**22,910**	22,473	18,993
Total operating revenues	**120,741**	134,038	143,050
Operating Expenses			
Cost of revenues			
Equipment	**24,009**	23,685	19,585
Broadcast, programming and operations	**—**	8,106	16,077
Other cost of revenues (exclusive of depreciation and amortization shown separately below)	**26,839**	28,616	29,989
Selling, general and administrative	**28,961**	29,669	30,817
Asset impairments and abandonments and restructuring	**27,498**	213	15,687
Depreciation and amortization	**18,021**	17,852	22,523
Total operating expenses	**125,328**	108,141	134,678
Operating Income (Loss)	**(4,587)**	25,897	8,372
Other Income (Expense)			
Interest expense	**(6,108)**	(6,716)	(7,727)
Equity in net income of affiliates	**1,791**	603	89
Other income (expense) – net	**5,810**	9,387	(1,088)
Total other income (expense)	**1,493**	3,274	(8,726)
Income (Loss) from Continuing Operations Before Income Taxes	**(3,094)**	29,171	(354)
Income tax expense on continuing operations	**3,780**	5,395	1,168
Income (Loss) from Continuing Operations	**(6,874)**	23,776	(1,522)
Loss from discontinued operations, net of tax	**(181)**	(2,297)	(2,299)
Net Income (Loss)	**(7,055)**	21,479	(3,821)
Less: Net Income Attributable to Noncontrolling Interest	**(1,469)**	(1,398)	(1,355)
Net Income (Loss) Attributable to AT&T	**$ (8,524)**	$ 20,081	$ (5,176)
Less: Preferred Stock Dividends	**(203)**	(207)	(193)
Net Income (Loss) Attributable to Common Stock	**$ (8,727)**	$ 19,874	$ (5,369)
Basic Earnings (Loss) Per Share from continuing operations	**$ (1.10)**	$ 3.07	$ (0.45)
Basic Loss Per Share from discontinued operations	**$ (0.03)**	$ (0.30)	$ (0.30)
Basic Earnings (Loss) Per Share Attributable to Common Stock	**$ (1.13)**	$ 2.77	$ (0.75)
Diluted Earnings (Loss) Per Share from continuing operations	**$ (1.10)**	$ 3.02	$ (0.45)
Diluted Loss Per Share from discontinued operations	**$ (0.03)**	$ (0.29)	$ (0.30)
Diluted Earnings (Loss) Per Share Attributable to Common Stock	**$ (1.13)**	$ 2.73	$ (0.75)

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

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

	2022	2021	2020
Net income (loss)	**$ (7,055)**	$ 21,479	$ (3,821)
Other comprehensive income (loss), net of tax:			
Foreign Currency:			
Translation adjustment (includes $0, $(2) and $(59) attributable to noncontrolling interest), net of taxes of $90, $(44) and $(42)	**346**	(127)	(929)
Reclassification adjustment included in net income (loss), net of taxes of $0, $204 and $0	**—**	2,087	—
Distributions of WarnerMedia, net of taxes of $(38), $0 and $0	**(182)**	—	—
Securities:			
Net unrealized gains (losses), net of taxes of $(49), $(21) and $27	**(143)**	(63)	78
Reclassification adjustment included in net income (loss), net of taxes of $3, $(1) and $(5)	**8**	(3)	(15)
Derivative Instruments:			
Net unrealized gains (losses), net of taxes of $(183), $(192) and $(212)	**(648)**	(715)	(811)
Reclassification adjustment included in net income (loss), net of taxes of $25, $19 and $18	**96**	72	69
Distributions of WarnerMedia, net of taxes of $(12), $0 and $0	**(24)**	—	—
Defined benefit postretirement plans:			
Net prior service (cost) credit arising during period, net of taxes of $583, $(8) and $735	**1,787**	(34)	2,250
Amortization of net prior service credit included in net income (loss), net of taxes of $(663), $(660) and $(601)	**(2,028)**	(2,020)	(1,841)
Distribution of WarnerMedia, net of taxes of $5, $0 and $0	**25**	—	—
Other comprehensive income (loss)	**(763)**	(803)	(1,199)
Total comprehensive income (loss)	**(7,818)**	20,676	(5,020)
Less: Total comprehensive income attributable to noncontrolling interest	**(1,469)**	(1,396)	(1,296)
Total Comprehensive Income (Loss) Attributable to AT&T	**$ (9,287)**	$ 19,280	$ (6,316)

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

Consolidated Balance Sheets
Dollars in millions except per share amounts

	December 31,	
	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,701**	$ 19,223
Accounts receivable – net of related allowance for credit loss of $588 and $658	**11,466**	12,313
Inventories	**3,123**	3,325
Prepaid and other current assets	**14,818**	16,131
Assets from discontinued operations	**—**	119,776
Total current assets	**33,108**	170,768
Property, Plant and Equipment – Net	**127,445**	121,649
Goodwill – Net	**67,895**	92,740
Licenses – Net	**124,092**	113,830
Other Intangible Assets – Net	**5,354**	5,391
Investments in and Advances to Equity Affiliates	**3,533**	6,168
Operating Lease Right-Of-Use Assets	**21,814**	21,824
Other Assets	**19,612**	19,252
Total Assets	**$ 402,853**	$ 551,622
Liabilities and Stockholders' Equity		
Current Liabilities		
Debt maturing within one year	**$ 7,467**	$ 24,620
Note payable to DIRECTV	**130**	1,245
Accounts payable and accrued liabilities	**42,644**	39,095
Advanced billings and customer deposits	**3,918**	3,966
Dividends payable	**2,014**	3,749
Liabilities from discontinued operations	**—**	33,555
Total current liabilities	**56,173**	106,230
Long-Term Debt	**128,423**	151,011
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**57,032**	53,767
Postemployment benefit obligation	**7,260**	12,560
Operating lease liabilities	**18,659**	18,956
Other noncurrent liabilities	**28,849**	25,243
Total deferred credits and other noncurrent liabilities	**111,800**	110,526
Stockholders' Equity		
Preferred stock ($1 par value, 10,000,000 authorized at December 31, 2022 and December 31, 2021):		
Series A (48,000 issued and outstanding at December 31, 2022 and December 31, 2021)	**—**	—
Series B (20,000 issued and outstanding at December 31, 2022 and December 31, 2021)	**—**	—
Series C (70,000 issued and outstanding at December 31, 2022 and December 31, 2021)	**—**	—
Common stock ($1 par value, 14,000,000,000 authorized at December 31, 2022 and December 31, 2021: issued 7,620,748,598 at December 31, 2022 and December 31, 2021)	**7,621**	7,621
Additional paid-in capital	**123,610**	130,112
Retained (deficit) earnings	**(19,415)**	42,350
Treasury stock (493,156,816 at December 31, 2022 and 479,684,705 at December 31, 2021, at cost)	**(17,082)**	(17,280)
Accumulated other comprehensive income	**2,766**	3,529
Noncontrolling interest	**8,957**	17,523
Total stockholders' equity	**106,457**	183,855
Total Liabilities and Stockholders' Equity	**$ 402,853**	$ 551,622

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

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

	2022	2021	2020
Operating Activities			
Income (loss) from continuing operations	**$ (6,874)**	$ 23,776	$ (1,522)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities from continuing operations:			
Depreciation and amortization	**18,021**	17,852	22,523
Provision for uncollectible accounts	**1,865**	1,241	1,798
Deferred income tax expense	**2,975**	7,412	2,145
Net (gain) loss on investments, net of impairments	**381**	(369)	(970)
Pension and postretirement benefit expense (credit)	**(3,237)**	(3,857)	(2,992)
Actuarial (gain) loss on pension and postretirement benefits	**(1,999)**	(4,143)	4,169
Asset impairments and abandonments and restructuring	**27,498**	213	15,687
Changes in operating assets and liabilities:			
Receivables	**727**	(1,125)	1,079
Other current assets	**(674)**	(1,288)	(2,138)
Accounts payable and other accrued liabilities	**(1,109)**	(1,570)	(1,895)
Equipment installment receivables and related sales	**154**	(271)	(1,428)
Deferred customer contract acquisition and fulfillment costs	**(947)**	18	382
Postretirement claims and contributions	**(823)**	(822)	(985)
Other – net	**(146)**	103	1,631
Total adjustments	**42,686**	13,394	39,006
Net Cash Provided by Operating Activities from Continuing Operations	**35,812**	37,170	37,484
Investing Activities			
Capital expenditures	**(19,626)**	(15,545)	(14,690)
Acquisitions, net of cash acquired	**(10,200)**	(25,453)	(1,625)
Dispositions	**199**	7,136	2,472
Distributions from DIRECTV in excess of cumulative equity in earnings	**2,649**	1,323	—
Other – net	**79**	50	396
Net Cash Used in Investing Activities from Continuing Operations	**(26,899)**	(32,489)	(13,447)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less	**(519)**	1,316	(17)
Issuance of other short-term borrowings	**3,955**	21,856	9,440
Repayment of other short-term borrowings	**(18,345)**	(7,510)	(9,467)
Issuance of long-term debt	**2,979**	9,931	31,988
Repayment of long-term debt	**(25,118)**	(3,039)	(39,062)
Note payable to DIRECTV, net of payments	**(1,211)**	1,341	—
Payment of vendor financing	**(4,697)**	(4,596)	(2,966)
Issuance of preferred stock	**—**	—	3,869
Purchase of treasury stock	**(890)**	(202)	(5,498)
Issuance of treasury stock	**28**	96	105
Issuance of preferred interests in subsidiaries	**—**	—	1,979
Redemption of preferred interest in subsidiary	**(2,665)**	—	(1,950)
Dividends paid	**(9,859)**	(15,068)	(14,956)
Other – net	**(3,222)**	(2,231)	(4,496)
Net Cash (Used in) Provided by Financing Activities from Continuing Operations	**(59,564)**	1,894	(31,031)
Net (decrease) increase in cash and cash equivalents and restricted cash from continuing operations	**(50,651)**	6,575	(6,994)
Cash flows from Discontinued Operations:			
Cash (used in) provided by operating activities	**(3,789)**	4,788	5,645
Cash provided by (used in) investing activities	**1,094**	399	(102)
Cash provided by (used in) financing activities	**35,823**	(316)	(974)
Net increase (decrease) in cash and cash equivalents and restricted cash from discontinued operations	**33,128**	4,871	4,569
Net (decrease) increase in cash and cash equivalents and restricted cash	**(17,523)**	11,446	(2,425)
Cash and cash equivalents and restricted cash beginning of year	**21,316**	9,870	12,295
Cash and Cash Equivalents and Restricted Cash End of Year	**$ 3,793**	$ 21,316	$ 9,870

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

	2022		2021		2020	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Preferred Stock – Series A						
Balance at beginning of year	**—**	**$ —**	—	$ —	—	$ —
Balance at end of year	**—**	**$ —**	—	$ —	—	$ —
Preferred Stock – Series B						
Balance at beginning of year	**—**	**$ —**	—	$ —	—	$ —
Balance at end of year	**—**	**$ —**	—	$ —	—	$ —
Preferred Stock – Series C						
Balance at beginning of year	**—**	**$ —**	—	$ —	—	$ —
Balance at end of year	**—**	**$ —**	—	$ —	—	$ —
Common Stock						
Balance at beginning of year	**7,621**	**$ 7,621**	7,621	$ 7,621	7,621	$ 7,621
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		**$ 130,112**		$ 130,175		$ 126,279
Distribution of WarnerMedia		**(6,832)**		—		—
Repurchase and acquisition of common stock		**—**		—		67
Issuance of preferred stock		**—**		—		3,869
Issuance of treasury stock		**(171)**		(76)		(62)
Share-based payments		**(162)**		13		18
Acquisition or reclassification of interests held by noncontrolling owners		**663**		—		4
Balance at end of year		**$ 123,610**		$ 130,112		$ 130,175
Retained (Deficit) Earnings						
Balance at beginning of year		**$ 42,350**		$ 37,457		$ 57,936
Cumulative effect of accounting changes and other adjustments		**—**		—		(293)
Adjusted beginning balance		**42,350**		37,457		57,643
Net income (loss) attributable to AT&T		**(8,524)**		20,081		(5,176)
Distribution of WarnerMedia		**(45,041)**		—		—
Preferred stock dividends		**(207)**		(224)		(139)
Common stock dividends ($1.11, $2.08 and $2.08 per share)		**(7,993)**		(14,964)		(14,871)
Balance at end of year		**$ (19,415)**		$ 42,350		$ 37,457

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

	2022		2021		2020	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Treasury Stock						
Balance at beginning of year	**(480)**	**$ (17,280)**	(495)	$ (17,910)	(366)	$ (13,085)
Repurchase and acquisition of common stock	**(44)**	**(890)**	(8)	(237)	(150)	(5,631)
Issuance of treasury stock	**31**	**1,088**	23	867	21	806
Balance at end of year	**(493)**	**$ (17,082)**	(480)	$ (17,280)	(495)	$ (17,910)
Accumulated Other Comprehensive Income Attributable to AT&T, net of tax						
Balance at beginning of year		**$ 3,529**		$ 4,330		$ 5,470
Other comprehensive income (loss) attributable to AT&T		**(763)**		(801)		(1,140)
Balance at end of year		**$ 2,766**		$ 3,529		$ 4,330
Noncontrolling Interest						
Balance at beginning of year		**$ 17,523**		$ 17,567		$ 17,713
Cumulative effect of accounting changes and other adjustments		**—**		—		(7)
Adjusted beginning balance		**17,523**		17,567		17,706
Net income attributable to noncontrolling interest		**1,469**		1,398		1,355
Issuance and acquisition (disposition) of noncontrolling owners		**(21)**		7		1,979
Redemption of noncontrolling interest		**(2,665)**		—		(1,950)
Reclassification of noncontrolling interest		**(5,997)**		—		—
Distributions		**(1,352)**		(1,447)		(1,464)
Translation adjustments attributable to noncontrolling interest, net of taxes		**—**		(2)		(59)
Balance at end of year		**$ 8,957**		$ 17,523		$ 17,567
Total Stockholders' Equity at beginning of year		**$ 183,855**		$ 179,240		$ 201,934
Total Stockholders' Equity at end of year		**$ 106,457**		$ 183,855		$ 179,240

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