

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions, except per share amounts)

	For the three months ended June 30,		For the six months ended June 30,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net sales	\$ 971	\$ 752	\$ 1,815	\$1,498
Cost of sales	<u>625</u>	<u>571</u>	<u>1,169</u>	<u>1,117</u>
Gross margin	346	181	646	381
Operating expenses:				
Selling, general and administrative expenses	166	148	326	300
Research, development and engineering expenses	85	85	169	178
Amortization of purchased intangibles	9	9	19	18
Restructuring, impairment and other charges and (credits)	(34)	49		100
Asbestos settlement	<u>47</u>	<u>39</u>	<u>66</u>	<u>337</u>
Operating income (loss)	73	(149)	66	(552)
Interest income	4	9	10	17
Interest expense	(37)	(42)	(73)	(82)
(Loss) gain on repurchases and retirement of debt, net	(9)	13	(32)	17
Other income, net	<u>5</u>	<u>20</u>	<u>1</u>	<u>6</u>
Income (loss) before income taxes	36	(149)	(28)	(594)
(Provision) benefit for income taxes	<u>(24)</u>	<u>34</u>	<u>(12)</u>	<u>178</u>
Income (loss) before minority interests and equity earnings	12	(115)	(40)	(416)
Minority interests	(11)	33	(11)	70
Equity in earnings of associated companies, net of impairments	<u>107</u>	<u>60</u>	<u>214</u>	<u>119</u>
Net income (loss)	<u>\$ 108</u>	<u>\$ (22)</u>	<u>\$ 163</u>	<u>\$ (227)</u>
Basic earnings (loss) per common share	<u>\$ 0.08</u>	<u>\$ (0.02)</u>	<u>\$ 0.12</u>	<u>\$ (0.19)</u>
Diluted earnings (loss) per common share	<u>\$ 0.07</u>	<u>\$ (0.02)</u>	<u>\$ 0.11</u>	<u>\$ (0.19)</u>
Shares used in computing per share amounts for:				
Basic earnings (loss) per common share	<u>1,383</u>	<u>1,244</u>	<u>1,371</u>	<u>1,222</u>
Diluted earnings (loss) per common share	<u>1,495</u>	<u>1,244</u>	<u>1,446</u>	<u>1,222</u>

Certain amounts for 2003 were reclassified to conform with 2004 classifications.

See Notes to Consolidated Financial Statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS

(Unaudited; in millions, except per share amounts)

	<u>June 30,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 964	\$ 833
Short-term investments, at fair value	<u>623</u>	<u>433</u>
Total cash, cash equivalents and short-term investments	1,587	1,266
Trade accounts receivable, net	566	525
Inventories	501	467
Deferred income taxes	236	242
Other current assets	<u>175</u>	<u>194</u>
Total current assets	3,065	2,694
Investments	1,132	1,045
Property, net	3,663	3,620
Goodwill	1,729	1,735
Other intangible assets, net	146	166
Deferred income taxes	1,278	1,225
Other assets	<u>236</u>	<u>267</u>
Total Assets	<u>\$ 11,249</u>	<u>\$ 10,752</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Loans payable	\$ 312	\$ 146
Accounts payable	377	333
Other accrued liabilities	<u>1,065</u>	<u>1,074</u>
Total current liabilities	1,754	1,553
Long-term debt	2,448	2,668
Postretirement benefits other than pensions	610	619
Other liabilities	405	412
Commitments and contingencies		
Minority interests	30	36
Shareholders' equity:		
Preferred stock – Par value \$100.00 per share; Shares authorized: 10 million		
Series C mandatory convertible preferred stock – Shares issued: 5.75 million;		
Shares outstanding: 637 thousand and 854 thousand	64	85
Common stock – Par value \$0.50 per share; Shares authorized: 3.8 billion;		
Shares issued: 1,417 million and 1,401 million	708	701
Additional paid-in capital	10,350	10,298
Accumulated deficit	(4,981)	(5,144)
Treasury stock, at cost; Shares held: 23 million and 58 million	(234)	(574)
Accumulated other comprehensive income	<u>95</u>	<u>98</u>
Total shareholders' equity	<u>6,002</u>	<u>5,464</u>
Total Liabilities and Shareholders' Equity	<u>\$ 11,249</u>	<u>\$ 10,752</u>

Certain amounts for 2003 were reclassified to conform with 2004 classifications.

See Notes to Consolidated Financial Statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in millions)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30,</u> <u>2004</u>	<u>March 31,</u> <u>2004</u>	<u>June 30,</u> <u>2004</u> <u>2003</u>	
Cash flows from operating activities:				
Net income (loss)	\$ 108	\$ 55	\$ 163	\$ (227)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Amortization of purchased intangibles	9	10	19	18
Depreciation	120	120	240	250
Restructuring, impairment and other charges and credits	(34)	34		100
Asbestos settlement	47	19	66	337
Loss (gain) on repurchases and retirement of debt, net	9	23	32	(17)
Undistributed earnings of associated companies	(63)	(29)	(92)	(24)
Minority interests, net of dividends paid	11		11	(70)
Deferred tax benefit	5	(40)	(35)	(234)
Interest expense on convertible debentures	1	2	3	13
Restructuring payments	(22)	(34)	(56)	(143)
Income tax refund				191
Tax benefit on stock options	5	6	11	
Changes in certain working capital items:				
Trade accounts receivable	(26)	(17)	(43)	17
Inventories	(1)	(32)	(33)	34
Other current assets	4	3	7	(4)
Accounts payable and other current liabilities, net of restructuring payments	60	(66)	(6)	(173)
Other, net	<u>29</u>	<u>(9)</u>	<u>20</u>	<u>(20)</u>
Net cash provided by operating activities	<u>262</u>	<u>45</u>	<u>307</u>	<u>48</u>
Cash flows from investing activities:				
Capital expenditures	(168)	(134)	(302)	(110)
Net proceeds from sale of precision lens business				9
Net proceeds from sale or disposal of assets	26	9	35	43
Net increase in long-term investments and other long-term assets				(4)
Short-term investments - acquisitions	(404)	(302)	(706)	(1,060)
Short-term investments - liquidations	230	284	514	956
Restricted investments - liquidations	<u>3</u>	<u>2</u>	<u>5</u>	<u>6</u>
Net cash used in investing activities	<u>(313)</u>	<u>(141)</u>	<u>(454)</u>	<u>(160)</u>
Cash flows from financing activities:				
Net repayments of loans payable	(7)	(2)	(9)	(54)
Proceeds from issuance of long-term debt, net		396	396	
Repayments of long-term debt	(9)	(141)	(150)	(823)
Proceeds from issuance of common stock, net	13	11	24	281
Cash dividends to preferred shareholders	(3)	(2)	(5)	(6)
Proceeds from the exercise of stock options	<u>15</u>	<u>12</u>	<u>27</u>	
Net cash provided by (used in) financing activities	<u>9</u>	<u>274</u>	<u>283</u>	<u>(602)</u>
Effect of exchange rates on cash	<u>(4)</u>	<u>(1)</u>	<u>(5)</u>	<u>35</u>
Net (decrease) increase in cash and cash equivalents	(46)	177	131	(679)
Cash and cash equivalents at beginning of period	<u>1,010</u>	<u>833</u>	<u>833</u>	<u>1,426</u>
Cash and cash equivalents at end of period	<u>\$ 964</u>	<u>\$ 1,010</u>	<u>\$ 964</u>	<u>\$ 747</u>

Certain amounts for 2003 were reclassified to conform with 2004 classifications.

See Notes to Consolidated Financial Statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
SEGMENT RESULTS
(Unaudited; in millions)

Effective with the first quarter of 2004, we have revised our reportable operating segments from Telecommunications and Technologies to Telecommunications, Display Technologies, Environmental Technologies, and Life Sciences. Prior year information has been restated to conform with this revision.

	Telecom- <u>munications</u>	Display <u>Technologies</u>	Environmental <u>Technologies</u>	Life <u>Sciences</u>	Unallocated <u>and Other</u>	Consolidated <u>Total</u>
For the three months ended June 30, 2004						
Net sales	\$ 392	\$ 277	\$ 141	\$ 79	\$ 82	\$ 971
Research, development and engineering expenses (1)	\$ 23	\$ 19	\$ 21	\$ 9	\$ 13	\$ 85
Restructuring, impairment and other charges and (credits) (2)	\$ (1)				\$ (33)	\$ (34)
Interest expense (3)	\$ 16	\$ 11	\$ 5	\$ 2	\$ 3	\$ 37
Benefit (provision) for income taxes	\$ 11	\$ (32)	\$ (2)	\$ (2)	\$ 1	\$ (24)
(Loss) income before minority interests and equity (losses) earnings (4)(5)	\$ (21)	\$ 64	\$ 4	\$ 5	\$ (40)	\$ 12
Minority interests (6)					(11)	(11)
Equity in earnings of associated companies, net of impairments		71			36	107
Net (loss) income	<u>\$ (21)</u>	<u>\$ 135</u>	<u>4</u>	<u>\$ 5</u>	<u>\$ (15)</u>	<u>\$ 108</u>
For the three months ended June 30, 2003						
Net sales	\$ 347	\$ 135	\$ 117	\$ 72	\$ 81	\$ 752
Research, development and engineering expenses (1)	\$ 32	\$ 12	\$ 20	\$ 7	\$ 14	\$ 85
Restructuring, impairment and other charges and (credits) (2)	\$ (19)				\$ 68	\$ 49
Interest expense (3)	\$ 22	\$ 9	\$ 5	\$ 2	\$ 4	\$ 42
Benefit (provision) for income taxes	\$ 5	\$ (11)	\$ (2)	\$ (2)	\$ 44	\$ 34
(Loss) income before minority interests and equity earnings (4)(5)	\$ (53)	\$ 22	\$ 6	\$ 4	\$ (94)	\$ (115)
Minority interests (6)					33	33
Equity in (losses) earnings of associated companies, net of impairments (7)	(8)	31	(3)		40	60
Net (loss) income	<u>\$ (61)</u>	<u>\$ 53</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ (21)</u>	<u>\$ (22)</u>
For the six months ended June 30, 2004						
Net sales	\$ 704	\$ 507	\$ 282	\$ 158	\$ 164	\$ 1,815
Research, development and engineering expenses (1)	\$ 48	\$ 35	\$ 41	\$ 18	\$ 27	\$ 169
Restructuring, impairment and other charges and (credits) (2)	\$ (5)				\$ 5	
Interest expense (3)	\$ 32	\$ 22	\$ 10	\$ 3	\$ 6	\$ 73
Benefit (provision) for income taxes	\$ 34	\$ (58)	\$ (5)	\$ (5)	\$ 22	\$ (12)
(Loss) income before minority interests and equity (losses) earnings (4)(5)	\$ (68)	\$ 117	\$ 10	\$ 10	\$ (109)	\$ (40)
Minority interests (6)	1				(12)	(11)
Equity in earnings of associated companies, net of impairments	3	136			75	214
Net (loss) income	<u>\$ (64)</u>	<u>\$ 253</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ (46)</u>	<u>\$ 163</u>

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
SEGMENT RESULTS
(Unaudited; in millions)

	<u>Telecom-</u> <u>munications</u>	<u>Display</u> <u>Technologies</u>	<u>Environmental</u> <u>Technologies</u>	<u>Life</u> <u>Sciences</u>	<u>Unallocated</u> <u>and Other</u>	<u>Consolidated</u> <u>Total</u>
For the six months ended June 30, 2003						
Net sales	\$ 699	\$ 252	\$ 232	\$ 145	\$ 170	\$ 1,498
Research, development and engineering expenses (1)	\$ 70	\$ 24	\$ 41	\$ 14	\$ 29	\$ 178
Restructuring, impairment and other charges and (credits) (2)	\$ (28)				\$ 128	\$ 100
Interest expense (3)	\$ 43	\$ 18	\$ 10	\$ 4	\$ 7	\$ 82
Benefit (provision) for income taxes	\$ 30	\$ (17)	\$ (4)	\$ (6)	\$ 175	\$ 178
(Loss) income before minority interests and equity (losses) earnings (4)(5)	\$ (113)	\$ 35	\$ 9	\$ 12	\$ (359)	\$ (416)
Minority interests (6)					70	70
Equity in (losses) earnings of associated companies, net of impairments (7)	<u>(11)</u>	<u>55</u>	<u>(1)</u>	<u></u>	<u>76</u>	<u>119</u>
Net (loss) income	<u>\$ (124)</u>	<u>\$ 90</u>	<u>\$ 8</u>	<u>\$ 12</u>	<u>\$ (213)</u>	<u>\$ (227)</u>

(1) Non-direct research, development and engineering expenses are allocated based upon direct project spending for each segment.

(2) Related tax (expense) benefit follows:

For the three months ended June 30, 2004: \$0, \$0, \$0, \$0, \$(7) and \$(7).

For the three months ended June 30, 2003: \$2, \$0, \$0, \$0, \$16 and \$18.

For the six months ended June 30, 2004: \$(1), \$0, \$0, \$0, \$8 and \$7.

For the six months ended June 30, 2003: \$(2), \$0, \$0, \$0, \$28 and \$26.

(3) Interest expense is allocated to segments based on a percentage of segment net operating assets. Consolidated subsidiaries with independent capital structures do not receive additional allocations of interest expense.

(4) Many of Corning's administrative and staff functions are performed on a centralized basis. Where practicable, Corning charges these expenses to segments based upon the extent to which each business uses a centralized function. Other staff functions, such as corporate finance, human resources and legal are allocated to segments primarily as a percentage of sales.

(5) (Loss) income before minority interests and equity (losses) earnings includes an allocation of depreciation of corporate property, plant and equipment not specifically identifiable to a segment. Related depreciable assets are not allocated to segment assets.

(6) (Loss) income before minority interests and equity (losses) earnings includes the following restructuring, impairment and other charges and (credits):

For the three and six months ended June 30, 2004, gains from the sale of assets of Corning Asahi Video Products Company in excess of assumed salvage value of \$13 and \$14, respectively.

For the three and six months ended June 30, 2003, charges related to impairment of long-lived assets of Corning Asahi Video Products Company of \$28 and \$59, respectively.

(7) Equity in (losses) earnings of associated companies, net of impairments includes \$7 related to impairments of equity investments in the Telecommunications segment for the three and six months ended June 30, 2003.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
SEGMENT RESULTS
(Unaudited; in millions)

A reconciliation of reportable segment net income (loss) to consolidated net income (loss) follows:

	<u>For the three months</u> <u>ended June 30,</u>		<u>For the six months</u> <u>ended June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net income (loss) of reportable segments	\$ 123	\$ (1)	\$ 209	
	\$ (14)			
Non-reportable operating segments net income (loss) (1)	19	(26)	1	(47)
Unallocated amounts:				
Non-segment loss and other (2)	(4)	(14)	(7)	(29)
Non-segment restructuring, impairment and other (charges) and credits	4	(10)	4	(10)
Asbestos settlement	(47)	(39)	(66)	(337)
Interest income	4	9	10	17
(Loss) gain on repurchases of debt	(9)	13	(32)	17
Benefit for income taxes (3)	1	21	3	133
Equity in earnings of associated companies, net of impairments (4)	<u>17</u>	<u>25</u>	<u>41</u>	<u>43</u>
Net income (loss)	<u>\$ 108</u>	<u>\$ (22)</u>	<u>\$ 163</u>	<u>\$ (227)</u>

- (1) Non-reportable operating segments net income (loss) includes the results of non-reportable operating segments.
- (2) Non-segment loss and other includes the results of non-segment operations and other corporate activities.
- (3) Benefit for income taxes includes taxes associated with non-segment restructuring, impairment and other charges.
- (4) Equity in earnings of associated companies, net of impairments includes amounts derived from corporate investments, primarily Dow Corning Corporation.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Restructuring, Impairment and Other Charges and (Credits)

In the second quarter of 2004, we recorded credits of \$34 million (\$14 million after-tax and minority interest) included in restructuring, impairment and other charges and (credits). A summary of these credits follows:

- a \$25 million gain (\$8 million after-tax and minority interest) related to proceeds in excess of assumed salvage values for assets of Corning Asahi Video Products Company that were previously impaired but later sold to a third party in China; and
- a \$9 million credit (\$6 million after-tax) comprised of reversals of reserves related to prior years' restructuring charges.

2. Asbestos Settlement

On March 28, 2003, we announced that we had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against us and Pittsburgh Corning Corporation ("PCC"), which might arise from PCC products or operations. Accordingly, we recorded a charge of \$298 million (\$192 million after-tax) in the first quarter of 2003. The charge included the value of 25 million shares of Corning common stock that we will contribute as part of the settlement. Also at that time, we indicated that any changes in the value of our common stock contribution would be recognized in our quarterly results through the date of contribution to the settlement trust. As required, we recorded a mark-to-market charge of \$47 million (\$45 million after-tax) in the second quarter of 2004 reflecting the increased fair value of Corning's common stock. Since the first quarter of 2003, we have recorded total charges of \$479 million (\$327 million after-tax) to reflect the settlement and to mark-to-market the value of our common stock.

3. Long-Term Debt

During the second quarter of 2004, we issued 10 million shares of common stock and paid \$9 million in cash in exchange for 3.5% convertible debentures with a book value of \$98 million. As a result of these transactions, we recorded a \$9 million charge (\$9 million after-tax) relating to the retirement of debt.

4. Dow Corning Corporation

In the second quarter of 2004, Corning's 50-percent owned equity company, Dow Corning Corporation, recorded a restructuring charge and a charge to adjust interest liabilities due to court rulings on its emergence from bankruptcy. Our equity earnings in the second quarter of 2004 included \$21 million related to these charges.

5. Subsequent Event

On July 8, 2004, we announced the sale of our frequency control business, which is part of our Telecommunications segment. The frequency control business had 2003 annual sales of approximately \$70 million. We expect to close the transaction and recognize a pretax loss approximating \$25 million in the third quarter of 2004.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
QUARTERLY SALES INFORMATION

(Unaudited; in millions)

	<u>2004</u>				
	<u>Three Months Ended</u>		<u>Six Months Ended</u>		
	<u>March 31</u>	<u>June 30</u>	<u>June 30</u>		
Telecommunications					
Fiber and cable	\$ 149	\$ 192	\$ 341		
Hardware and equipment	<u>163</u>	<u>200</u>	<u>363</u>		
	312	392	704		
Display Technologies	230	277	507		
Environmental Technologies	141	141	282		
Life Sciences	79	79	158		
Other					
Conventional video components	2		2		
Other businesses	<u>80</u>	<u>82</u>	<u>162</u>		
	82	82	164		
Total	<u>\$ 844</u>	<u>\$ 971</u>	<u>\$1,815</u>		
	<u>2003</u>				
	<u>Three Months Ended</u>				
	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>	<u>Total</u>
Telecommunications					
Fiber and cable	\$ 193	\$ 178	\$ 209	\$ 180	\$ 760
Hardware and equipment	141	154	151	166	612
Photonic technologies	<u>18</u>	<u>15</u>	<u>10</u>	<u>11</u>	<u>54</u>
	352	347	370	357	1,426
Display Technologies	117	135	144	199	595
Environmental Technologies	115	117	121	123	476
Life Sciences	73	72	70	66	281
Other					
Conventional video components	25	24	14	2	65
Other businesses	<u>64</u>	<u>57</u>	<u>53</u>	<u>73</u>	<u>247</u>
	89	81	67	75	312
Total	<u>\$ 746</u>	<u>\$ 752</u>	<u>\$ 772</u>	<u>\$ 820</u>	<u>\$3,090</u>

The above supplemental information is intended to facilitate analysis of Corning's businesses.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
RECONCILIATION OF NON-GAAP FINANCIAL MEASURE TO GAAP FINANCIAL
MEASURE

Three Months Ended June 30, 2004

(Unaudited; amounts in millions, except per share amounts)

Corning's earnings excluding certain items for the second quarter is a non-GAAP financial measure within the meaning of Regulation G of the Securities and Exchange Commission. The company believes presenting earnings estimates that exclude these items is helpful in understanding Corning's operating results. This non-GAAP measure is not in accordance with and should not be considered an alternative of measurements required under generally accepted accounting principles (GAAP). A detailed reconciliation is provided below outlining the differences between this non-GAAP measure and the directly related GAAP measure.

	<u>Per Share</u>	<u>Income Before Income Taxes</u>	<u>Net Income</u>
Earnings per share (EPS) and net income, excluding certain items	\$ 0.11	\$ 58	\$ 169
<i>Certain items:</i>			
Asbestos settlement (a)	(0.03)	(47)	(45)
Restructuring, impairment and other charges and (credits) (b)	0.01	34	14
Loss on repurchases and retirement of debt, net (c)	(0.01)	(9)	(9)
Equity in earnings of associated companies (d)	<u>(0.01)</u>	<u> </u>	<u>(21)</u>
Total EPS and net income	<u>\$ 0.07</u>	<u>\$ 36</u>	<u>\$ 108</u>

- (a) As part of Corning's asbestos settlement arrangement to be incorporated into the Pittsburgh Corning Corporation reorganization plan, Corning will contribute, when the reorganization plan becomes effective, 25 million shares of Corning common stock to a trust. The common stock is currently expected to be contributed to the trust in 2004, after the plan has been approved by the asbestos claimants and bankruptcy court. The portion of the asbestos liability to be settled in common stock requires adjustment each quarter based upon movements in the common stock price prior to contribution of the shares to the trust. At the end of the second quarter, we recorded a pretax charge of \$47 million (\$45 million after-tax) to reflect the increase in Corning's stock price over the past quarter from \$11.18 to \$13.06.
- (b) This gain relates to restructuring activities, which is primarily comprised of the sale of Corning Asahi Video Products Company assets during the second quarter of 2004.
- (c) From time to time, Corning may repurchase or retire debt, which could result in a gain or loss during a quarter. In the second quarter of 2004, Corning retired certain amounts of its 3.5% convertible bonds due 2008, resulting in a pretax and after-tax loss of \$9 million.
- (d) This amount reflects charges of \$21 million in equity earnings related to restructuring actions and adjustments to interest liabilities recorded by Dow Corning Corporation on its emergence from bankruptcy.

