

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions, except per share amounts)

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net sales	\$ 772	\$ 762	\$ 2,270	\$ 2,428
Cost of sales	<u>546</u>	<u>633</u>	<u>1,663</u>	<u>1,931</u>
Gross margin	226	129	607	497
Operating expenses				
Selling, general and administrative expenses	147	157	447	533
Research, development and engineering expenses	80	113	258	370
Amortization of purchased intangibles	10	11	28	33
Restructuring, impairment and other charges and credits	<u>(10)</u>	<u>125</u>	<u>90</u>	<u>619</u>
Operating loss	(1)	(277)	(216)	(1,058)
Interest income	7	10	24	34
Interest expense	(36)	(44)	(118)	(136)
Asbestos settlement	(51)		(388)	
Gain on repurchases of debt, net	2	22	19	90
Other income (expense), net	<u>5</u>	<u>(1)</u>	<u>11</u>	<u>(10)</u>
Loss from continuing operations before income taxes	(74)	(290)	(668)	(1,080)
Benefit for income taxes	<u>(30)</u>	<u>(91)</u>	<u>(208)</u>	<u>(325)</u>
Loss from continuing operations before minority interests and equity earnings	(44)	(199)	(460)	(755)
Minority interests	2	5	72	17
Equity in earnings of associated companies, net of impairments	<u>75</u>	<u>42</u>	<u>194</u>	<u>97</u>
Income (loss) from continuing operations	33	(152)	(194)	(641)
Income from discontinued operations, net of income taxes	<u> </u>	<u>19</u>	<u> </u>	<u>48</u>
Net income (loss)	33	(133)	(194)	(593)
Dividend requirements of preferred stock	<u> </u>	<u>(128)</u>	<u> </u>	<u>(128)</u>
Earnings (loss) attributable to common shareholders	<u>\$ 33</u>	<u>\$ (261)</u>	<u>\$ (194)</u>	<u>\$ (721)</u>
Basic earnings (loss) per common share from:				
Continuing operations	\$ 0.03	\$ (0.27)	\$ (0.15)	\$ (0.79)
Discontinued operations	<u> </u>	<u>0.02</u>	<u> </u>	<u>0.05</u>
Basic earnings (loss) per common share	<u>\$ 0.03</u>	<u>\$ (0.25)</u>	<u>\$ (0.15)</u>	<u>\$ (0.74)</u>
Diluted earnings (loss) per common share from:				
Continuing operations	\$ 0.02	\$ (0.27)	\$ (0.15)	\$ (0.79)
Discontinued operations	<u> </u>	<u>0.02</u>	<u> </u>	<u>0.05</u>
Diluted earnings (loss) per common share	<u>\$ 0.02</u>	<u>\$ (0.25)</u>	<u>\$ (0.15)</u>	<u>\$ (0.74)</u>
Shares used in computing per share amounts for:				
Basic earnings (loss) per common share	<u>1,314</u>	<u>1,036</u>	<u>1,253</u>	<u>977</u>
Diluted earnings (loss) per common share	<u>1,390</u>	<u>1,036</u>	<u>1,253</u>	<u>977</u>

See notes to consolidated financial statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	Unaudited September 30, <u>2003</u>	December 31, <u>2002</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 809	\$ 1,426
Short-term investments, at fair value	<u>608</u>	<u>664</u>
Total cash and short-term investments	1,417	2,090
Trade accounts receivable, net	498	470
Inventories ⁴⁹¹	559	
Deferred income taxes	375	296
Other accounts receivable	117	358
Prepaid expenses and other current assets	<u>70</u>	<u>52</u>
Total current assets	2,968	3,825
Restricted cash and investments	66	82
Investments ⁹⁸⁵	769	
Property, net ^{3,582}	3,705	
Goodwill ^{1,730}	1,715	
Other intangible assets, net	175	213
Deferred income taxes	1,106	887
Other assets	<u>202</u>	<u>210</u>
Total assets	<u>\$ 10,814</u>	<u>\$ 11,406</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Loans payable	\$ 49	\$ 204
Accounts payable	310	339
Other accrued liabilities	<u>1,089</u>	<u>1,137</u>
Total current liabilities	1,448	1,680
Long-term debt	2,819	3,963
Postretirement benefits other than pensions	614	617
Other liabilities	615	396
Commitments and contingencies		
Minority interests	36	59
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: 1.05 million and 1.55 million	105	155
Common stock – Par value \$0.50 per share; Shares authorized: 3.8 billion;		
Shares issued: 1,388 million and 1,267 million	694	634
Additional paid-in capital	10,275	9,695
Accumulated deficit	(5,115)	(4,921)
Treasury stock, at cost; Shares held: 58 million and 70 million	(581)	(702)
Accumulated other comprehensive loss	<u>(96)</u>	<u>(170)</u>
Total shareholders' equity	5,282	4,691
Total liabilities and shareholders' equity	<u>\$ 10,814</u>	<u>\$ 11,406</u>

Certain amounts for 2002 were reclassified to conform with 2003 classifications.

See notes to consolidated financial statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

	For the three months ended		For the nine months ended	
	<u>Sept. 30,</u> <u>2003</u>	<u>June 30,</u> <u>2003</u>	<u>September 30,</u> <u>2003</u>	<u>2002</u>
Cash flows from operating activities:				
Income (loss) from continuing operations	\$ 33	\$ (22)	\$ (194)	\$ (641)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:				
Amortization of purchased intangibles	10	9	28	33
Depreciation	113	132	363	471
Asbestos settlement	51	39	388	
Restructuring, impairment and other charges and credits	(10)	49	90	619
Gain on repurchases of debt, net of inducements	(2)	(13)	(19)	(90)
Undistributed earnings of associated companies	(60)	(25)	(84)	(4)
Minority interests, net of dividends paid	(6)	(33)	(76)	(17)
Deferred tax benefit	(25)	(56)	(259)	(145)
Interest expense on convertible debentures	2	6	15	30
Restructuring payments	(58)	(49)	(201)	(193)
Decreases (increases) in restricted cash	22	(18)	1	(20)
Income tax refund			191	
Employee benefits in excess of expense	(65)	(8)	(93)	(27)
Changes in certain working capital items:				
Trade accounts receivable	(12)	30	5	97
Inventories	39	27	73	88
Other current assets	38	(14)	34	(117)
Accounts payable and other current liabilities, net of restructuring payments	(55)	(55)	(228)	(259)
Other, net	<u>3</u>	<u>26</u>	<u>32</u>	<u>(46)</u>
Net cash provided by (used in) operating activities	<u>18</u>	<u>25</u>	<u>66</u>	<u>(221)</u>
Cash flows from investing activities:				
Capital expenditures	(94)	(55)	(204)	(279)
Acquisitions of businesses, net of cash acquired				(29)
Proceeds from sale of precision lens business			9	
Net proceeds from sale or disposal of assets	(4)	30	39	62
Increase in long-term investments and other long-term assets		(4)	(4)	(18)
Short-term investments - acquisitions	(365)	(633)	(1,426)	(1,557)
Short-term investments - liquidations	525	587	1,481	2,123
Restricted investments - acquisitions				(117)
Restricted investments - liquidations	9	3	15	67
Other, net	<u>1</u>	<u>1</u>	<u>1</u>	<u>(2)</u>
Net cash provided by (used in) investing activities	<u>71</u>	<u>(72)</u>	<u>(89)</u>	<u>250</u>
Cash flows from financing activities:				
Net (repayments of) proceeds from loans payable	(106)	8	(160)	(502)
Proceeds from issuance of long-term debt				11
Repayments of long-term debt	(277)	(634)	(1,100)	(190)
Proceeds from issuance of Series C preferred stock				558
Proceeds from issuance of common stock, net	370	278	651	47
Repurchases of common stock for treasury				(23)
Cash dividends paid to preferred shareholders	(9)	(3)	(15)	(67)
Other, net	<u>1</u>	<u>1</u>	<u>1</u>	<u>(8)</u>
Net cash used in financing activities	<u>(22)</u>	<u>(351)</u>	<u>(624)</u>	<u>(174)</u>
Effect of exchange rates on cash	<u>(5)</u>	<u>18</u>	<u>30</u>	<u>23</u>
Cash provided by (used in) continuing operations	62	(380)	(617)	(122)
Cash provided by discontinued operations				<u>68</u>
Net increase (decrease) in cash and cash equivalents	62	(380)	(617)	(54)
Cash and cash equivalents at beginning of period	<u>747</u>	<u>1,127</u>	<u>1,426</u>	<u>1,037</u>
Cash and cash equivalents at end of period	<u>\$ 809</u>	<u>\$ 747</u>	<u>\$ 809</u>	<u>\$ 983</u>

Certain amounts for 2002 were reclassified to conform with 2003 classifications.

See notes to the consolidated financial statements.

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

	Telecom- munications	Technologies	Non-segment/ Other items	Consolidated Total
For the three months ended September 30, 2003				
Net sales	\$ 370	\$ 396	\$ 6	\$ 772
Research, development and engineering expenses	\$ 25	\$ 55		\$ 80
Restructuring, impairment and other charges and credits (1)	\$ (2)	\$ (11)	\$ 3	\$ (10)
Interest expense	\$ 16	\$ 20		\$ 36
(Benefit) provision for income taxes	\$ (16)	\$ 5	\$ (19)	\$ (30)
(Loss) income before minority interests and equity earnings	\$ (28)	\$ 14	\$ (30)	\$ (44)
Minority interests		2		2
Equity in earnings of associated companies	<u>1</u>	<u>53</u>	<u>21</u>	<u>75</u>
Net (loss) income	<u>\$ (27)</u>	<u>\$ 69</u>	<u>\$ (9)</u>	<u>\$ 33</u>
For the three months ended September 30, 2002				
Net sales	\$ 366	\$ 392	\$ 4	\$ 762
Research, development and engineering expenses	\$ 71	\$ 42		\$ 113
Restructuring, impairment and other charges and credits (1)	\$ 90	\$ 6	\$ 29	\$ 125
Interest expense	\$ 27	\$ 19	\$ (2)	\$ 44
(Benefit) provision for income taxes	\$ (91)	\$ 1	\$ (1)	\$ (91)
Loss before minority interests and equity (losses) earnings	\$ (193)	\$ (5)	\$ (1)	\$ (199)
Minority interests		5		5
Equity in (losses) earnings of associated companies	(5)	43	4	42
Income from discontinued operations			<u>19</u>	<u>19</u>
Net (loss) income	<u>\$ (198)</u>	<u>\$ 43</u>	<u>\$ 22</u>	<u>\$ (133)</u>
For the nine months ended September 30, 2003				
Net sales	\$ 1,069	\$ 1,184	\$ 17	\$ 2,270
Research, development and engineering expenses	\$ 95	\$ 165	\$ (2)	\$ 258
Restructuring, impairment and other charges and credits (1)	\$ (30)	\$ 107	\$ 13	\$ 90
Interest expense	\$ 59	\$ 59		\$ 118
Benefit for income taxes	\$ (46)	\$ (10)	\$ (152)	\$ (208)
Loss before minority interests and equity (losses) earnings	\$ (141)	\$ (84)	\$ (235)	\$ (460)
Minority interests		72		72
Equity in (losses) earnings of associated companies	<u>(10)</u>	<u>140</u>	<u>64</u>	<u>194</u>
Net (loss) income	<u>\$ (151)</u>	<u>\$ 128</u>	<u>\$ (171)</u>	<u>\$ (194)</u>
For the nine months ended September 30, 2002				
Net sales	\$ 1,268	\$ 1,146	\$ 14	\$ 2,428
Research, development and engineering expenses	\$ 243	\$ 127		\$ 370
Restructuring, impairment and other charges and credits (1)	\$ 459	\$ 9	\$ 151	\$ 619
Interest expense	\$ 84	\$ 52		\$ 136
(Benefit) provision for income taxes	\$ (346)	\$ 5	\$ 16	\$ (325)
Loss before minority interests and equity (losses) earnings	\$ (715)	\$ (13)	\$ (27)	\$ (755)
Minority interests		16	1	17
Equity in (losses) earnings of associated companies	(26)	117	6	97
Income from discontinued operations			<u>48</u>	<u>48</u>
Net (loss) income	<u>\$ (741)</u>	<u>\$ 120</u>	<u>\$ 28</u>	<u>\$ (593)</u>

- (1) Related tax (expense) benefit:
Three months ended September 30, 2003: \$2, \$(2), \$0 and \$0.
Three months ended September 30, 2002: \$28, \$2, \$9 and \$39.
Nine months ended September 30, 2003: \$0, \$22, \$4 and \$26.
Nine months ended September 30, 2002: \$153, \$3, \$49 and \$205.

See notes to the consolidated financial statements.

Non-segment/other items net (loss) income is detailed below:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Non-segment (loss) income and other (1)	\$ (4)	\$ (5)	\$ (29)	\$ 16
Non-segment restructuring, impairment and other charges and credits	(3)	(29)	(13)	(151)
Interest income	7	10	24	34
Asbestos settlement	(51)		(388)	
Gain on repurchases of debt, net	2	22	19	90
Benefit (provision) for income taxes	19	1	152	(16)
Minority interests				1
Equity in earnings of associated companies (2)	21	4	64	6
Income from discontinued operations		19		48
Net (loss) income	<u>\$ (9)</u>	<u>\$ 22</u>	<u>\$ (171)</u>	<u>\$ 28</u>

(1) Includes non-segment operations and other corporate activities.

(2) Includes amounts derived from corporate investments and activities, primarily Dow Corning Corporation in 2003.

See notes to the consolidated financial statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; in millions except headcount and per share amounts)

When used in these notes, the terms “we,” “our” or “us” refer to Corning Incorporated and its consolidated subsidiaries.

1. Restructuring, Impairment and Other Charges and Credits

In the third quarter of 2003, we recorded restructuring, impairment and other charges of \$16 (\$13 after-tax), offset by credits of \$26 (\$21 after-tax and minority interest), resulting in a net pre-tax credit of \$10 (\$8 after-tax and minority interest). A summary of these charges and credits follow:

Photonic Technologies

On July 31, 2003, we completed the sale of certain photonic technologies business assets to Avanex Corporation (“Avanex”) in exchange for 21 restricted shares of Avanex common stock, which we valued at approximately \$53. The transaction generated a loss on sale of \$13 (\$9 after-tax). In accordance with the sale agreement, Avanex acquired assets related to the optical amplifier facility in Erwin, NY and the optical component plant in Milan, Italy. We also paid Avanex \$22 in cash. Approximately 400 employees of the photonic technologies business became employees of Avanex in the third quarter.

In the third quarter of 2003, we recorded a charge of \$3 (\$4 after-tax) related to the exit of the photonic technologies business for employee separation costs.

We expect to close our pump laser facility in Bedford, MA by the end of the year. Pursuant to a separate arrangement with Avanex, we are manufacturing pump lasers for sale to Avanex in the fourth quarter of 2003. This activity will be completed and the facility closed by December 31, 2003.

Credits

In the third quarter of 2003, we reversed \$20 (\$18 after-tax) of restructuring reserves related to prior years restructuring charges, primarily in the Telecommunications segment. The reversals included \$10 related to employee separation costs which were less than estimated, \$6 related to exit costs which were less than estimated and \$4 related to proceeds in excess of assumed salvage values for assets that were previously impaired and certain assets management decided to retain as abandoned factories were being dismantled. Approximately \$5 of the exit cost reversals listed above related directly to the Avanex transaction.

In addition to the above mentioned credits, we also recorded credits for the following in the third quarter:

- a \$5 credit (\$2 after-tax and minority interest) related to assets from Corning Asahi Video that were previously impaired but later sold to a third party based in China, and
- a \$1 gain on the sale of previously-impaired cost investments in the Telecommunications segment that were sold.

The current restructuring reserve continues to be evaluated as plans are being executed. In addition, since the restructuring program is an aggregation of many individual plans currently being executed, actual costs have differed from estimated amounts. As a result, there may be additional charges or reversals.

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 (\$192 after-tax) in the first quarter. The charge included the value of 25 shares of Corning common stock which 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 \$51 (\$31 after-tax) in the third quarter reflecting the increased fair value of the shares to its common stock contribution. We have recorded total charges of \$388 (\$247 after-tax) to reflect the settlement and to mark-to-market the value of our common stock for the nine months ended September 30, 2003.

3. Income Tax

In the third quarter of 2003, the effective tax benefit rate excluding certain items such as restructuring, impairment, asbestos settlement and debt transactions was 33 percent for the quarter and nine months ended September 30, 2003.

CORNING INCORPORATED
QUARTERLY SEGMENT SALES INFORMATION
(In millions)

	2003			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>9 Months</u>
Telecommunications				
Fiber and cable	\$ 193	\$ 178	\$ 209	\$ 580
Hardware and equipment	122	136	134	392
Photonic technologies	18	15	10	43
Controls and connectors	<u>19</u>	<u>18</u>	<u>17</u>	<u>54</u>
Segment net sales	<u>\$ 352</u>	<u>\$ 347</u>	<u>\$ 370</u>	<u>\$1,069</u>

Technologies				
Display technologies	\$ 117	\$ 135	\$ 144	\$ 396
Environmental	115	117	121	353
Life sciences	73	72	70	215
Conventional video components	25	24	14	63
Other technologies businesses	<u>58</u>	<u>52</u>	<u>47</u>	<u>157</u>
Segment net sales	<u>\$ 388</u>	<u>\$ 400</u>	<u>\$ 396</u>	<u>\$1,184</u>

	2002				
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Total</u>
Telecommunications					
Fiber and cable	\$ 255	\$ 212	\$ 195	\$ 197	\$ 859
Hardware and equipment	135	153	136	128	552
Photonic technologies	36	39	17	19	111
Controls and connectors	<u>39</u>	<u>33</u>	<u>18</u>	<u>19</u>	<u>109</u>
Segment net sales	<u>\$ 465</u>	<u>\$ 437</u>	<u>\$ 366</u>	<u>\$ 363</u>	<u>\$1,631</u>

Technologies					
Display technologies	\$ 93	\$ 102	\$ 106	\$ 104	\$ 405
Environmental	94	102	102	96	394
Life sciences	70	74	71	65	280
Conventional video components	43	41	47	35	166
Other technologies businesses	<u>69</u>	<u>66</u>	<u>66</u>	<u>67</u>	<u>268</u>
Segment net sales	<u>\$ 369</u>	<u>\$ 385</u>	<u>\$ 392</u>	<u>\$ 367</u>	<u>\$1,513</u>

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