

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in millions, except per share amounts)

	For the three months ended	
	<u>March 31,</u>	
	<u>2003</u>	<u>2002</u>
Net sales	\$ 746	\$ 839
Cost of sales	<u>546</u>	<u>655</u>
Gross margin	200	184
Operating expenses:		
Selling, general and administrative expenses	152	188
Research, development and engineering expenses	93	126
Amortization of purchased intangibles	9	11
Restructuring, impairment and other charges and credits	<u>51</u>	<u> </u>
Operating loss	(105)	(141)
Interest income	8	14
Interest expense	(40)	(48)
Asbestos settlement	(298)	
Gain on repurchases of debt, net of inducements	4	
Other expense, net	<u>(14)</u>	<u>(9)</u>
Loss from continuing operations before income taxes	(445)	(184)
Benefit for income taxes	<u>(144)</u>	<u>(50)</u>
Loss from continuing operations before minority interests and equity earnings	(301)	(134)
Minority interests	37	6
Equity in earnings of associated companies	<u>59</u>	<u>30</u>
Loss from continuing operations	(205)	(98)
Income from discontinued operations, net of income taxes	<u> </u>	<u>8</u>
Net loss	<u>\$ (205)</u>	<u>\$ (90)</u>
Basic and diluted loss per common share from:		
Continuing operations	\$ (0.17)	\$ (0.10)
Discontinued operations	<u> </u>	<u> </u>
Loss per common share	<u>\$ (0.17)</u>	<u>\$ (0.10)</u>
Shares used in computing per share amounts for basic and diluted loss per common share	<u>1,200</u>	<u>945</u>

See Notes to Consolidated Financial Statements.

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

	<u>Unaudited March 31, 2003</u>	<u>December 31, 2002</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,127	\$ 1,426
Short-term investments, at fair value	<u>722</u>	<u>664</u>
Total cash and short-term investments	1,849	2,090
Trade accounts receivable, net	494	470
Inventories	556	559
Deferred income taxes	323	296
Other accounts receivable	140	358
Prepaid expenses and other current assets	<u>58</u>	<u>52</u>
Total current assets	3,420	3,825
Restricted cash and investments	82	82
Investments	773	769
Property, net	3,576	3,705
Goodwill	1,721	1,715
Other intangible assets, net	205	213
Deferred income taxes	1,018	887
Other assets	<u>202</u>	<u>210</u>
Total Assets	<u>\$ 10,997</u>	<u>\$ 11,406</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Loans payable	\$ 145	\$ 204
Accounts payable	299	339
Other accrued liabilities	<u>1,115</u>	<u>1,137</u>
Total current liabilities	1,559	1,680
Long-term debt	3,710	3,963
Postretirement benefits other than pensions	609	617
Other liabilities	512	396
Commitments and contingencies		
Minority interests	19	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: 1.55 million	155	155
Common stock – Par value \$0.50 per share; Shares authorized: 3.8 billion;		
Shares issued: 1,267 million	634	634
Additional paid-in capital	9,671	9,695
Accumulated deficit	(5,126)	(4,921)
Treasury stock, at cost: 61 million; 70 million	(613)	(702)
Accumulated other comprehensive loss	<u>(133)</u>	<u>(170)</u>
Total shareholders' equity	<u>4,588</u>	<u>4,691</u>
Total Liabilities and Shareholders' Equity	<u>\$ 10,997</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	
	March 31,	
	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Loss from continuing operations	\$ (205)	\$ (98)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:		
Amortization of purchased intangibles	9	11
Depreciation	118	157
Asbestos settlement	298	
Restructuring, impairment and other charges and credits	51	
Gain on repurchases of debt, net of inducements	(4)	
Undistributed earnings of associated companies	1	23
Minority interests, net of dividends paid	(37)	(6)
Deferred tax benefit	(178)	(87)
Interest expense on convertible debentures	7	10
Restructuring payments	(94)	(58)
Increases in restricted cash	(3)	
Income tax refund	191	
Changes in certain working capital items:		
Trade accounts receivable	(13)	(26)
Inventories	7	1
Other current assets	10	34
Accounts payable and other current liabilities, net of restructuring payments	(118)	(154)
Other, net	<u>(17)</u>	<u>(9)</u>
Net cash provided by (used in) operating activities	<u>23</u>	<u>(202)</u>
Cash flows from investing activities:		
Capital expenditures	(55)	(101)
Net proceeds from sale of precision lens business	9	
Net proceeds from sale or disposal of assets	13	5
Short-term investments - acquisitions	(428)	(603)
Short-term investments - liquidations	369	919
Restricted investments - liquidations	3	
Other, net	<u>1</u>	<u> </u>
Net cash (used in) provided by investing activities	<u>(88)</u>	<u>220</u>
Cash flows from financing activities:		
Net repayments of loans payable	(62)	(143)
Proceeds from issuance of long-term debt		11
Repayments of long-term debt	(189)	(4)
Proceeds from issuance of common stock, net	3	15
Cash dividends paid to preferred shareholders	<u>(3)</u>	<u> </u>
Net cash used in financing activities	<u>(251)</u>	<u>(121)</u>
Effect of exchange rates on cash	<u>17</u>	<u>(6)</u>
Cash used in continuing operations	(299)	(109)
Cash provided by discontinued operations		<u>30</u>
Net decrease in cash and cash equivalents	(299)	(79)
Cash and cash equivalents at beginning of period	<u>1,426</u>	<u>1,037</u>
Cash and cash equivalents at end of period	<u>\$ 1,127</u>	<u>\$ 958</u>

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

See Notes to Consolidated Financial Statements.

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

	<u>Telecom- munications</u>	<u>Technologies</u>	<u>Non-segment/ Other items</u>	<u>Consolidated Total</u>
For the three months ended March 31, 2003				
Net sales	\$ 352	\$ 388	\$ 6	\$ 746
Research, development and engineering expenses	\$ 38	\$ 55		\$ 93
Restructuring, impairment and other (credits) charges	\$ (9)	\$ 60		\$ 51
Interest expense	\$ 21	\$ 19		\$ 40
Benefit for income taxes	\$ (25)	\$ (7)	\$ (112)	\$ (144)
Loss before minority interests and equity (losses) earnings	\$ (60)	\$ (55)	\$ (186)	\$ (301)
Minority interests		37		37
Equity in (losses) earnings of associated companies	(3)	44	18	59
Net (loss) income	<u>\$ (63)</u>	<u>\$ 26</u>	<u>\$ (168)</u>	<u>\$ (205)</u>
For the three months ended March 31, 2002				
Net sales	\$ 465	\$ 369	\$ 5	\$ 839
Research, development and engineering expenses	\$ 86	\$ 40		\$ 126
Interest expense	\$ 32	\$ 16		\$ 48
(Benefit) provision for income taxes	\$ (64)	\$ (1)	\$ 15	\$ (50)
(Loss) income before minority interests and equity (losses) earnings	\$ (138)	\$ (4)	\$ 8	\$ (134)
Minority interests		6		6
Equity in (losses) earnings of associated companies	(4)	33	1	30
Income from discontinued operations			8	8
Net (loss) income	<u>\$ (142)</u>	<u>\$ 35</u>	<u>\$ 17</u>	<u>\$ (90)</u>

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

	Three months ended March 31,	
	<u>2003</u>	<u>2002</u>
Non-segment income (loss) and other (1)	\$ (12)	\$ 9
Interest income	8	14
Asbestos settlement	(298)	
Gain on repurchases of debt, net of inducements	4	
Benefit (provision) for income taxes	112	(15)
Equity in earnings of associated companies (2)	18	1
Income from discontinued operations		8
Net (loss) income	<u>\$ (168)</u>	<u>\$ 17</u>

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

(2) Includes amounts derived from corporate investments and activities, primarily Dow Corning Corporation - \$17 million.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Restructuring, Impairment and Other Charges and Credits

In the first quarter of 2003, Corning recorded charges for the shut-down of the conventional video components business and the optical switching product line which were announced on April 15, 2003 and February 13, 2003, respectively. Corning also recorded credits related to the restructuring reserve discussed below.

Conventional video components business

Corning Asahi Video Products Company, a 51% owned consolidated subsidiary, (conventional video components business, or CAV), is a manufacturer of glass panels and funnels for use in conventional tube televisions and is reported in the Technologies segment.

On April 15, 2003, Corning announced that it had agreed with its partner to cease production. Corning impaired the long-lived assets of this business to estimated salvage value and recorded a charge of \$62 million, (\$19 million after-tax and minority interest). Restructuring costs are expected to be recorded in the second quarter and total \$80 million to \$110 million (\$20 million to \$35 million after-tax and minority interest). Corning expects the restructuring costs to require \$40 million to \$65 million in cash spending. Corning has agreed with its partner to a shared funding arrangement based on proportional partnership interests.

Optical Switching

Corning recorded a charge of \$17 million associated with the discontinuance of the optical switching product line in the photonic technologies business due to the downturn in the telecommunications industry. In addition to the first quarter charges, Corning expects to record charges of \$10 million in the second quarter for certain exit costs.

Impairment of Cost Investments

In the first quarter, Corning recorded a \$5 million (\$3 million after-tax) charge for other than temporary declines in certain investments accounted for under the cost method in the Telecommunications segment.

Credits

The current restructuring reserve continues to be evaluated as plans are being executed. As a result, there may be additional charges or reversals. In addition, since the restructuring program is an aggregation of many individual plans currently being executed, actual costs have differed from estimated amounts. During the first quarter, Corning recorded credits of \$33 million related to revised cost estimates of existing restructuring plans of which \$24 million related to employee separation and exit costs, while \$9 million related to adjustments to assumed salvage values of assets that were previously impaired.

2. Asbestos Settlement

On March 28, 2003, Corning announced that it had reached agreement with the representatives of asbestos claimants for the settlement of all current and future asbestos claims against Corning and Pittsburgh Corning Corporation (PCC), which might arise from PCC products or operations.

The agreement is expected to be incorporated into a settlement fund as part of a reorganization plan for PCC. The plan will be submitted to the federal bankruptcy court in Pittsburgh for approval, and is subject to a favorable vote by 75 percent of the asbestos claimants voting on the PCC reorganization plan. Corning will make its contributions to the settlement trust under the agreement after the plan is approved and no longer subject to appeal. The approval process could take one year or longer.

Corning's settlement will require the contribution, when the plan becomes effective, of Corning's equity interest in PCC, its one-half equity interest in Pittsburgh Corning Europe N.V. (PCE), a Belgian corporation, and 25 million shares of Corning common stock. Corning also will make cash payments with a current value of \$130 million over six years beginning in June 2005. In addition, Corning will assign insurance policy proceeds from its primary insurance and a portion of its excess insurance as part of the settlement. Corning recorded a charge of \$298 million (\$192 million after-tax) in the first quarter. The carrying value of Corning's stock in PCE and the fair value as of March 31, 2003, of 25 million shares of Corning common stock have been reflected in current liabilities. The remaining \$130 million, representing the net present value of the cash payments, discounted at 5.5%, is recorded in noncurrent liabilities. Any changes in the value of Corning's common stock contribution will need to be recognized in Corning's quarterly results through the date of contribution to the settlement trust.

3. Gain on Repurchases of Debt, Net of Inducements

During the first quarter of 2003, Corning repurchased and retired 298,500 zero coupon convertible debentures with an accreted value of \$231 million in exchange for cash of \$189 million in a series of open-market repurchases. Also in the first quarter Corning issued 6.5 million shares of treasury common stock in exchange for zero coupon convertible debentures with an accreted value of \$43 million. Corning recorded a net gain of \$4 million (\$3 million after-tax) associated with retirements of its zero coupon convertible debentures in the first quarter. The increase in equity due to the issuance of shares from treasury stock was \$77 million.

4. Income Tax

In the first quarter of 2003, the effective tax benefit rate excluding certain items such as restructuring, impairment, asbestos settlement and debt transactions was 30%.

CORNING INCORPORATED
QUARTERLY SALES INFORMATION

(In millions)

	2003				Total
	Q1	Q2	Q3	Q4	
Telecommunications					
Fiber and cable	\$ 193	\$	\$	\$	\$ 193
Hardware and equipment	122				122
Photonic technologies	18				18
Controls and connectors	<u>19</u>				<u>19</u>
Segment net sales	<u>\$ 352</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 352</u>
Technologies					
Display technologies	\$ 117	\$	\$	\$	\$ 117
Environmental	115				115
Life sciences	73				73
Conventional video components	25				25
Other technologies businesses	<u>58</u>				<u>58</u>
Segment net sales	<u>\$ 388</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 388</u>
2002					
	Q1	Q2	Q3	Q4	Total
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.