

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in millions, except per share amounts)

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Net sales	\$ 752	\$ 827	\$ 1,498	\$ 1,666
Cost of sales	<u>571</u>	<u>643</u>	<u>1,117</u>	<u>1,298</u>
Gross margin	181	184	381	368
Operating expenses:				
Selling, general and administrative expenses	148	188	300	376
Research, development and engineering expenses	85	131	178	257
Amortization of purchased intangibles	9	11	18	22
Restructuring, impairment and other charges and credits	<u>49</u>	<u>494</u>	<u>100</u>	<u>494</u>
Operating loss	(110)	(640)	(215)	(781)
Interest income	9	10	17	24
Interest expense	(42)	(44)	(82)	(92)
Asbestos settlement	(39)		(337)	
Gain on repurchases of debt, net of inducements	13	68	17	68
Other income (expense), net	<u>20</u>	<u> </u>	<u>6</u>	<u>(9)</u>
Loss from continuing operations before income taxes	(149)	(606)	(594)	(790)
Benefit for income taxes	<u>(34)</u>	<u>(184)</u>	<u>(178)</u>	<u>(234)</u>
Loss from continuing operations before minority interests and equity earnings	(115)	(422)	(416)	(556)
Minority interests	33	6	70	12
Equity in earnings of associated companies	<u>60</u>	<u>25</u>	<u>119</u>	<u>55</u>
Loss from continuing operations	(22)	(391)	(227)	(489)
Income from discontinued operations, net of income taxes	<u> </u>	<u>21</u>	<u> </u>	<u>29</u>
Net loss	<u>\$ (22)</u>	<u>\$ (370)</u>	<u>\$ (227)</u>	<u>\$ (460)</u>
Basic and diluted (loss) earnings per common share from:				
Continuing operations	\$ (0.02)	\$ (0.41)	\$ (0.19)	\$ (0.52)
Discontinued operations	<u> </u>	<u>0.02</u>	<u> </u>	<u>\$ 0.03</u>
Loss per common share	<u>\$ (0.02)</u>	<u>\$ (0.39)</u>	<u>\$ (0.19)</u>	<u>\$ (0.49)</u>
Shares used in computing per share amounts for basic and diluted (loss) earnings per common share	<u>1,244</u>	<u>948</u>	<u>1,222</u>	<u>947</u>

See notes to consolidated financial statements.

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

	<u>Unaudited</u> <u>June 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 747	\$ 1,426
Short-term investments, at fair value	<u>766</u>	<u>664</u>
Total cash and short-term investments	1,513	2,090
Trade accounts receivable, net	482	470
Inventories	538	559
Deferred income taxes	379	296
Other accounts receivable	155	358
Prepaid expenses and other current assets	<u>70</u>	<u>52</u>
Total current assets	3,137	3,825
Restricted cash and investments	97	82
Investments	842	769
Property, net	3,542	3,705
Goodwill	1,750	1,715
Other intangible assets, net	185	213
Deferred income taxes	1,081	887
Other assets	<u>235</u>	<u>210</u>
Total assets	<u>\$ 10,869</u>	<u>\$ 11,406</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Loans payable	\$ 156	\$ 204
Accounts payable	294	339
Other accrued liabilities	<u>1,169</u>	<u>1,137</u>
Total current liabilities	1,619	1,680
Long-term debt	3,095	3,963
Postretirement benefits other than pensions	616	617
Other liabilities	668	396
Commitments and contingencies		
Minority interests	40	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: 1.47 million and 1.55 million	147	155
Common stock – Par value \$0.50 per share; Shares authorized: 3.8 billion;		
Shares issued: 1,322 million and 1,267 million	661	634
Additional paid-in capital	9,905	9,695
Accumulated deficit	(5,148)	(4,921)
Treasury stock, at cost; Shares held: 59 million and 70 million	(592)	(702)
Accumulated other comprehensive loss	<u>(142)</u>	<u>(170)</u>
Total shareholders' equity	4,831	4,691
Total liabilities and shareholders' equity	<u>\$ 10,869</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 six months ended	
	<u>June 30.</u>	<u>March 31.</u>	<u>June 30.</u>	
	<u>2003</u>	<u>2003</u>	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:				
Loss from continuing operations	\$ (22)	\$ (205)	\$ (227)	\$ (489)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:				
Amortization of purchased intangibles	9	9	18	22
Depreciation	132	118	250	317
Asbestos settlement	39	298	337	
Restructuring, impairment and other charges and credits	49	51	100	494
Gain on repurchases of debt, net of inducements	(13)	(4)	(17)	(68)
Undistributed earnings of associated companies	(25)	1	(24)	28
Minority interests, net of dividends paid	(33)	(37)	(70)	(12)
Deferred tax benefit	(56)	(178)	(234)	(125)
Interest expense on convertible debentures	6	7	13	21
Restructuring payments	(49)	(94)	(143)	(116)
Increases in restricted cash	(18)	(3)	(21)	
Income tax refund		191	191	
Changes in certain working capital items:				
Trade accounts receivable	30	(13)	17	26
Inventories	27	7	34	24
Other current assets	(14)	10	(4)	(56)
Accounts payable and other current liabilities, net of restructuring payments	(55)	(118)	(173)	(181)
Other, net	<u>18</u>	<u>(17)</u>	<u>1</u>	<u>(77)</u>
Net cash provided by (used in) operating activities	<u>25</u>	<u>23</u>	<u>48</u>	<u>(192)</u>
Cash flows from investing activities:				
Capital expenditures	(55)	(55)	(110)	(210)
Net proceeds from sale of precision lens business		9	9	
Net proceeds from sale or disposal of assets	30	13	43	36
Net increase in long-term investments and other long-term assets	(4)		(4)	(9)
Short-term investments - acquisitions	(633)	(428)	(1,061)	(847)
Short-term investments - liquidations	587	369	956	1,648
Restricted investments - liquidations	3	3	6	
Other, net	<u>1</u>	<u>1</u>	<u>1</u>	<u>(2)</u>
Net cash (used in) provided by investing activities	<u>(72)</u>	<u>(88)</u>	<u>(160)</u>	<u>616</u>
Cash flows from financing activities:				
Net proceeds from (repayments of) loans payable	8	(62)	(54)	(474)
Proceeds from issuance of long-term debt				11
Repayments of long-term debt	(634)	(189)	(823)	(155)
Proceeds from issuance of common stock, net	278	3	281	33
Cash dividends paid to preferred shareholders	(3)	(3)	(6)	
Net cash used in financing activities	<u>(351)</u>	<u>(251)</u>	<u>(602)</u>	<u>(585)</u>
Effect of exchange rates on cash	<u>18</u>	<u>17</u>	<u>35</u>	<u>23</u>
Cash used in continuing operations	(380)	(299)	(679)	(138)
Cash provided by discontinued operations				41
Net decrease in cash and cash equivalents	(380)	(299)	(679)	(97)
Cash and cash equivalents at beginning of period	<u>1,127</u>	<u>1,426</u>	<u>1,426</u>	<u>1,037</u>
Cash and cash equivalents at end of period	<u>\$ 747</u>	<u>\$ 1,127</u>	<u>\$ 747</u>	<u>\$ 940</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 June 30, 2003				
Net sales	\$ 347	\$ 400	\$ 5	\$ 752
Research, development and engineering expenses	\$ 32	\$ 55	\$ (2)	\$ 85
Restructuring, impairment and other charges and credits (related tax benefit of \$2, \$12, \$4 and \$18)	\$ (19)	\$ 58	\$ 10	\$ 49
Interest expense	\$ 22	\$ 20		\$ 42
Benefit for income taxes	\$ (5)	\$ (8)	\$ (21)	\$ (34)
Loss before minority interests and equity (losses) earnings	\$ (53)	\$ (43)	\$ (19)	\$ (115)
Minority interests		33		33
Equity in (losses) earnings of associated companies	(8)	43	25	60
Net (loss) income	<u>\$ (61)</u>	<u>\$ 33</u>	<u>\$ 6</u>	<u>\$ (22)</u>
For the three months ended June 30, 2002				
Net sales	\$ 437	\$ 385	\$ 5	\$ 827
Research, development and engineering expenses	\$ 86	\$ 45		\$ 131
Restructuring, impairment and other charges and credits (related tax benefit of \$125, \$1, \$40 and \$166)	\$ 369	\$ 3	\$ 122	\$ 494
Interest expense	\$ 25	\$ 17	\$ 2	\$ 44
(Benefit) provision for income taxes	\$ (191)	\$ 5	\$ 2	\$ (184)
Loss before minority interests and equity (losses) earnings	\$ (384)	\$ (4)	\$ (34)	\$ (422)
Minority interests		5	1	6
Equity in (losses) earnings of associated companies	(17)	41	1	25
Income from discontinued operations			21	21
Net (loss) income	<u>\$ (401)</u>	<u>\$ 42</u>	<u>\$ (11)</u>	<u>\$ (370)</u>
For the six months ended June 30, 2003				
Net sales	\$ 699	\$ 788	\$ 11	\$ 1,498
Research, development and engineering expenses	\$ 70	\$ 110	\$ (2)	\$ 178
Restructuring, impairment and other charges and credits (related tax (expense) benefit of \$(2), \$24, \$4 and \$26)	\$ (28)	\$ 118	\$ 10	\$ 100
Interest expense	\$ 43	\$ 39		\$ 82
Benefit for income taxes	\$ (30)	\$ (15)	\$ (133)	\$ (178)
Loss before minority interests and equity (losses) earnings	\$ (113)	\$ (98)	\$ (205)	\$ (416)
Minority interests		70		70
Equity in (losses) earnings of associated companies	(11)	87	43	119
Net (loss) income	<u>\$ (124)</u>	<u>\$ 59</u>	<u>\$ (162)</u>	<u>\$ (227)</u>
For the six months ended June 30, 2002				
Net sales	\$ 902	\$ 754	\$ 10	\$ 1,666
Research, development and engineering expenses	\$ 172	\$ 85		\$ 257
Restructuring, impairment and other charges and credits (related tax benefit of \$125, \$1, \$40 and \$166)	\$ 369	\$ 3	\$ 122	\$ 494
Interest expense	\$ 57	\$ 33	\$ 2	\$ 92
(Benefit) provision for income taxes	\$ (255)	\$ 4	\$ 17	\$ (234)
Loss before minority interests and equity (losses) earnings	\$ (522)	\$ (8)	\$ (26)	\$ (556)
Minority interests		11	1	12
Equity in (losses) earnings of associated companies	(21)	74	2	55
Income from discontinued operations			29	29
Net (loss) income	<u>\$ (543)</u>	<u>\$ 77</u>	<u>\$ 6</u>	<u>\$ (460)</u>

See notes to the consolidated financial statements.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Non-segment (loss) income and other (1)	\$ (13)	\$ 12	\$ (25)	\$ 21
Non-segment restructuring, impairment and other charges	(10)	(122)	(10)	(122)
Interest income	9	10	17	24
Asbestos settlement	(39)		(337)	
Gain on repurchases of debt, net of inducements	13	68	17	68
Benefit (provision) for income taxes	21	(2)	133	(17)
Minority interests		1		1
Equity in earnings of associated companies (2)	25	1	43	2
Income from discontinued operations		21		29
Net income (loss)	<u>\$ 6</u>	<u>\$ (11)</u>	<u>\$ (162)</u>	<u>\$ 6</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)

1. Restructuring, Impairment and Other Charges and Credits

In the second quarter of 2003, Corning recorded restructuring, impairment and other charges of \$125 million (\$62 million after-tax and minority interest), offset by credits of \$76 million (\$59 million after-tax) resulting in a net pre-tax charge of \$49 million (\$3 million after-tax and minority interest). These charges relate to Corning's previously announced decisions to exit its conventional video components business and its photonic technologies business. The charges also reflect certain restructuring actions taken during the second quarter of 2003 relating to other Corning businesses. Corning also reversed \$76 million of liabilities relating to prior years' restructuring charges. A summary of these charges and credits follow:

Conventional Video Components

Corning Asahi Video Products Company (conventional video components business, or CAV), a 51 percent owned consolidated subsidiary, 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 CAV would cease production. Corning impaired the long-lived assets of this business to estimated salvage value and recorded a first quarter charge of \$62 million, (\$19 million after-tax and minority interest). In the second quarter of 2003, Corning recorded a restructuring charge of \$54 million (\$15 million after-tax and minority interest). The charge included \$18 million for employee separation costs, \$19 million for exit costs and \$17 million for curtailments related to pension and postretirement health care benefits.

In connection with the cessation of operations, Corning and Asahi Glass of America (the 49% owner of CAV) have reached agreement on the shared funding of CAV's obligations. Corning expects the restructuring costs to require \$45 million to \$60 million in cash spending. In June, CAV announced that it had signed a definitive agreement to sell assets to Henan Anyang CPT Glass Bulb Group, Electronic Glass Co., Ltd., located in China. The proceeds from this sale may offset a significant portion of the cash spending.

Photonic Technologies

On May 12, 2003, Corning announced that it would exit its photonic technologies business and had reached an agreement to sell a significant portion of the business to Avanex Corporation ("Avanex") in exchange for common stock valued at approximately \$85 million at June 30, 2003. The agreement allows Avanex to acquire assets related to the optical amplifier facility in Erwin, NY and the optical component plant in Milan, Italy. Corning expects approximately 400 employees of photonic technologies to transition to Avanex by the time the transaction closes sometime in the third quarter. Corning also expects to close its pump laser facility in Bedford, MA by the end of the year.

In the second quarter of 2003, Corning recorded a charge of \$33 million (\$22 million after-tax) related to the exit of the photonics business. The charge included \$7 million for employee separation costs, \$14 million for exit costs, \$7 million for curtailments related to pension and postretirement benefits and \$5 million to impair the remaining assets.

Also in the second quarter, Corning increased the deferred tax valuation allowance by \$21 million as it does not expect to realize certain deferred tax assets in Italy related to the photonics business. This charge is reflected in the statement of operations under "Benefit for income taxes."

Finally, Corning impaired \$7 million of equity investments in this business that will be abandoned as part of the exit from the business. This charge is reflected in the statement of operations under the line item, "Equity in earnings of associated companies."

Other

Corning also recorded \$38 million of restructuring and impairment charges primarily related to its telecommunications businesses and administrative staffs. The charge included \$17 million for employee separation costs, \$2 million for curtailments related to pension and postretirement benefits and \$19 million for asset impairments.

Credits

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.

In the second quarter of 2003, Corning reversed \$76 million (\$59 million after-tax) of restructuring reserves related to prior years restructuring charges, primarily in the Telecommunications segment. The reversals included \$27 million related to employee separation costs which were less than estimated, \$25 million related to a decision to change the restructuring plans and not exit a certain telecommunications business and \$24 million 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.

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. Accordingly, Corning recorded a charge of \$298 million (\$192 million after-tax) in the first quarter. The charge included the value of 25 million shares of Corning common stock which Corning will contribute as part of the settlement. Also at that time, Corning indicated that any changes in the value of its common stock contribution would be recognized in Corning's quarterly results through the date of contribution to the settlement trust. As required, Corning recorded a mark-to-market charge of \$39 million (\$24 million after-tax) in the second quarter reflecting the increased fair value of the shares to its common stock contribution.

3. Gain on Repurchases of Debt

During the second quarter of 2003, Corning repurchased and retired 834,000 zero coupon convertible debentures with an accreted value of \$652 million in exchange for cash of \$623 million in a modified Dutch tender offer. Corning recorded a net gain of \$13 million (\$8 million after-tax) associated with retirements of its zero coupon convertible debentures in the second quarter.

4. Income Tax

In the second quarter of 2003, the effective tax benefit rate excluding certain items such as restructuring, impairment, asbestos settlement and debt transactions was 37 percent for the quarter and 33 percent for the six months ended June 30, 2003.

5. Subsequent Event

On July 16, 2003, Corning repurchased and retired zero coupon convertible debentures with a face value of \$71 million in exchange for cash of \$53 million. In addition, Corning repurchased and retired 60 million of euro-denominated notes in exchange for cash of 62 million euros, or \$70 million.

CORNING INCORPORATED
QUARTERLY SALES INFORMATION
(In millions)

	2003		
	<u>Q1</u>	<u>Q2</u>	<u>6 Months</u>
Telecommunications			
Fiber and cable	\$ 193	\$ 178	\$ 371
Hardware and equipment	122	136	258
Photonic technologies	18	15	33
Controls and connectors	<u>19</u>	<u>18</u>	<u>37</u>
Segment net sales	<u>\$ 352</u>	<u>\$ 347</u>	<u>\$ 699</u>

Technologies			
Display technologies	\$ 117	\$ 135	\$ 252
Environmental	115	117	232
Life sciences	73	72	145
Conventional video components	25	24	49
Other technologies businesses	<u>58</u>	<u>52</u>	<u>110</u>
Segment net sales	<u>\$ 388</u>	<u>\$ 400</u>	<u>\$ 788</u>

	2002				Total
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</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.

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