

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

	For the three months ended	
	<u>March 31,</u>	
	<u>2002</u>	<u>2001</u>
Net sales	\$ 898	\$ 1,921
Cost of sales	<u>694</u>	<u>1,105</u>
Gross margin	204	816
Operating expenses:		
Selling, general and administrative expenses	190	270
Research, development and engineering expenses	128	160
Amortization of purchased intangibles	11	13
Amortization of goodwill	<u> </u>	<u>143</u>
Operating (loss) income	(125)	230
Interest income	14	24
Interest expense	(48)	(34)
Other expense, net	<u>(9)</u>	<u>(9)</u>
(Loss) income before income taxes	(168)	211
(Benefit) provision for income taxes	<u>(42)</u>	<u>108</u>
(Loss) income before minority interest and equity earnings	(126)	103
Minority interest in losses (earnings) of subsidiaries	6	(5)
Equity in earnings of associated companies	<u>30</u>	<u>34</u>
Net (loss) income	<u>\$ (90)</u>	<u>\$ 132</u>
Basic and diluted (loss) earnings per share	<u>\$ (0.10)</u>	<u>\$ 0.14</u>
Net (loss) income adjusted for the impact of SFAS No. 142 in 2001	<u>\$ (90)</u>	<u>\$ 268</u>
Basic and diluted (loss) earnings per share adjusted for the impact of SFAS No. 142 in 2001	<u>\$ (0.10)</u>	<u>\$ 0.29</u>
Shares used in computing per share amounts:		
Basic	<u>945</u>	<u>923</u>
Diluted	<u>945</u>	<u>937</u>
Diluted - adjusted for SFAS No. 142 in 2001	<u>945</u>	<u>943</u>

The accompanying notes are an integral part of these statements.

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

	Unaudited March 31, <u>2002</u>	December 31, <u>2001</u>	Unaudited March 31, <u>2001</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 958	\$ 1,037	\$ 564
Short-term investments, at fair value	<u>867</u>	<u>1,182</u>	<u>585</u>
Total cash and short-term investments	1,825	2,219	1,149
Trade accounts receivable, net of doubtful accounts and allowances - \$54, \$60 and \$47	616	593	1,245
Inventories	717	725	1,215
Deferred income taxes	329	347	232
Other current assets	<u>209</u>	<u>223</u>	<u>233</u>
Total current assets	3,696	4,107	4,074
Investments:			
Associated companies, at equity	616	636	474
Others, at cost or fair value	<u>134</u>	<u>142</u>	<u>137</u>
Total investments	750	778	611
Property, plant and equipment, at cost, net of accumulated depreciation - \$3,222, \$3,067 and \$2,785	4,967	5,097	4,939
Goodwill, net of accumulated amortization - \$661, \$661 and \$445	1,941	1,937	6,720
Other intangible assets, net of accumulated amortization - \$99, \$90 and \$62	329	352	566
Other assets	<u>605</u>	<u>522</u>	<u>263</u>
Total Assets	<u>\$ 12,288</u>	<u>\$ 12,793</u>	<u>\$ 17,173</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Loans payable	\$ 385	\$ 477	\$ 197
Accounts payable	338	441	614
Other accrued liabilities	<u>910</u>	<u>1,076</u>	<u>827</u>
Total current liabilities	1,633	1,994	1,638
Long-term debt	4,418	4,461	3,838
Postretirement benefits other than pensions	613	608	594
Other liabilities	189	190	204
Minority interest in subsidiary companies	113	119	140
Convertible preferred stock	7	7	8
Common shareholders' equity:			
Common stock, including excess over par value and other capital - par value \$0.50 per share; Shares authorized: 3.8 billion; Shares issued: 1.0 billion	10,039	10,044	9,685
(Accumulated deficit) retained earnings	(3,700)	(3,610)	2,077
Less: cost of 77 million, 79 million and 76 million shares of common stock in treasury	(806)	(827)	(777)
Accumulated other comprehensive loss	<u>(218)</u>	<u>(193)</u>	<u>(234)</u>
Total common shareholders' equity	<u>5,315</u>	<u>5,414</u>	<u>10,751</u>
Total Liabilities and Shareholders' Equity	<u>\$ 12,288</u>	<u>\$ 12,793</u>	<u>\$ 17,173</u>

The accompanying notes are an integral part of these statements.

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

	For the three months ended	
	March 31,	
	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net (loss) income	\$ (90)	\$ 132
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Amortization of purchased intangibles	11	13
Amortization of goodwill		143
Depreciation	163	155
Stock compensation charges	1	12
Equity in earnings of associated companies less than (in excess of) dividends received	23	(36)
Minority interest, net of dividends paid	(6)	1
Deferred tax benefit	(70)	(11)
Tax benefit on stock options		24
Interest expense on convertible debentures	10	10
Restructuring payments	(58)	
Changes in certain working capital items	(145)	(271)
Other, net	<u>(10)</u>	<u>4</u>
Net cash (used in) provided by operating activities	<u>(171)</u>	<u>176</u>
Cash flows from investing activities:		
Capital expenditures	(102)	(576)
Acquisitions of businesses, net of cash acquired		(66)
Net proceeds from sale or disposal of assets	5	6
Net decrease (increase) in long-term investments and other long-term assets	1	(47)
Short-term investments - acquisitions	(603)	(77)
Short-term investments - liquidations	919	207
Other, net	<u>(1)</u>	<u> </u>
Net cash provided by (used in) investing activities	<u>219</u>	<u>(553)</u>
Cash flows from financing activities:		
Net repayments of short-term debt	(143)	(12)
Proceeds from issuance of long-term debt	11	38
Repayments of long-term debt	(4)	(85)
Proceeds from issuance of common stock	15	7
Redemption of common stock for income tax withholding		(19)
Dividends paid		<u>(56)</u>
Net cash used in financing activities	<u>(121)</u>	<u>(127)</u>
Effect of exchange rates on cash	<u>(6)</u>	<u>(2)</u>
Cash used in continuing operations	<u>(79)</u>	<u>(506)</u>
Cash used in discontinued operations		<u>(9)</u>
Net decrease in cash and cash equivalents	(79)	(515)
Cash and cash equivalents at beginning of year	<u>1,037</u>	<u>1,079</u>
Cash and cash equivalents at end of period	<u>\$ 958</u>	<u>\$ 564</u>

The accompanying notes are an integral part of these statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Quarter 1, 2002

1. Information by Operating Segment

Information about the performance of Corning's three operating segments for the first quarter of 2002 and 2001 are presented below. These amounts exclude revenues, expenses and equity earnings not specifically identifiable to segments. Corning prepared the financial results for its three operating segments on a basis that is consistent with the manner in which Corning management internally disaggregates financial information to assist in making internal operating decisions. Corning has allocated some common expenses among segments differently than it would for stand alone financial information prepared in accordance with generally accepted accounting principles. Segment net income may not be consistent with measures used by other companies.

(In millions)	Three months ended March 31,	
	2002	2001
Telecommunications		
Net sales:		
Optical fiber and cable	\$ 255	\$ 875
Hardware and equipment	135	248
Photonic technologies	34	236
Controls and connectors	39	60
Optical networking devices	2	14
Total net sales	\$ 465	\$ 1,433
Research, development and engineering expenses	\$ 86	\$ 122
Interest expense	\$ 32	\$ 25
Segment (loss) earnings before equity (losses) earnings	\$ (138)	\$ 177
Equity in (losses) earnings of associated companies	(4)	3
Segment net (loss) income	\$ (142)	\$ 180
 Advanced Materials		
Net sales:		
Environmental technologies	\$ 94	\$ 108
Life sciences	70	70
Other advanced materials	69	104
Total net sales	\$ 233	\$ 282
Research, development and engineering expenses	\$ 31	\$ 28
Interest expense	\$ 8	\$ 5
Segment earnings before equity earnings	\$ 1	\$ 26
Equity in earnings of associated companies	8	6
Segment net income	\$ 9	\$ 32
 Information Display		
Net sales:		
Display technologies	\$ 93	\$ 62
Conventional video components	43	86
Precision lens	59	53
Total net sales	\$ 195	\$ 201
Research, development and engineering expenses	\$ 11	\$ 10
Interest expense	\$ 8	\$ 4
Segment earnings before minority interest and equity earnings	\$ 3	\$ 21
Minority interest in losses (earnings) of subsidiaries	6	(5)
Equity in earnings of associated companies	25	25
Segment net income	\$ 34	\$ 41

(In millions)	Three months ended	
	March 31,	
	<u>2002</u>	<u>2001</u>
Total segments		
Net sales	\$ 893	\$ 1,916
Research, development and engineering expenses	\$ 128	\$ 160
Interest expense	\$ 48	\$ 34
Segment (loss) earnings before minority interest and equity earnings	\$ (134)	\$ 224
Minority interest in losses (earnings) of subsidiaries	6	(5)
Equity in earnings of associated companies	<u>29</u>	<u>34</u>
Segment net (loss) income	<u>\$ (99)</u>	<u>\$ 253</u>

A reconciliation of the totals reported for the operating segments to the applicable line items in the consolidated financial statements is as follows (in millions):

	Three months ended	
	March 31,	
	<u>2002</u>	<u>2001</u>
Net sales		
Total segment net sales	\$ 893	\$ 1,916
Non-segment net sales (a)	<u>5</u>	<u>5</u>
Total net sales	<u>\$ 898</u>	<u>\$ 1,921</u>
Net income		
Total segment net (loss) income	\$ (99)	\$ 253
<i>Unallocated items:</i>		
Non-segment loss and other (a)	(1)	(1)
Amortization of goodwill (b)		(143)
Interest income (c)	14	24
Income tax (d)	(5)	(1)
Equity in earnings of associated companies (a)	<u>1</u>	<u></u>
Net (loss) income	<u>\$ (90)</u>	<u>\$ 132</u>

(a) Includes amounts derived from corporate investments.

(b) Amortization of goodwill relates primarily to the Telecommunications Segment.

(c) Corporate interest income is not allocated to reportable segments.

(d) Includes tax associated with unallocated items.

2. Income Taxes

Corning's effective income tax benefit rate for the three months ended March 31, 2002 was 25%. The effective tax benefit rate in the quarter is lower than the U.S. statutory income tax rate of 35% due to the impact of unusable tax credits and nondeductible expenses and losses.

3. Accounting Change

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Among other provisions, goodwill will no longer be amortized but will be subject to impairment tests at least annually. SFAS No. 142 was effective for Corning on January 1, 2002. Corning completed its initial impairment review during the first quarter and concluded a transitional impairment charge from the adoption of the standard would not be required.

The following table presents a reconciliation of reported net income and earnings per share to adjusted net income and earnings per share, as if SFAS No. 142 had been in effect as follows:

(In millions, except per share amounts)	For the three months ended March 31, 2001
Reported net income	\$ 132
Addback: Amortization of goodwill, net of income taxes	<u>136</u>
Adjusted net income	<u>\$ 268</u>
Reported earnings per share - basic	\$ 0.14
Addback: Amortization of goodwill, net of income taxes	<u>0.15</u>
Adjusted earnings per share - basic	<u>\$ 0.29</u>
Reported earnings per share - diluted	\$ 0.14
Addback: Amortization of goodwill, net of income taxes	<u>0.15</u>
Adjusted earnings per share - diluted	<u>\$ 0.29</u>

4. Supplementary Statement of Cash Flows Data

Supplemental disclosure of cash flow information is as follows (in millions):

	For the three months ended March 31,	
	<u>2002</u>	<u>2001</u>
Changes in certain working capital items:		
Trade accounts receivable	\$ (33)	\$ 35
Inventories	5	(178)
Other current assets	34	135
Accounts payable and other current liabilities, net of restructuring payments	<u>(151)</u>	<u>(263)</u>
Total	<u>\$ (145)</u>	<u>\$ (271)</u>

5. Reclassifications

Certain amounts in 2001 have been reclassified to conform with 2002 classifications.

CORNING INCORPORATED
QUARTERLY SALES INFORMATION
(In millions)

	2002				Total
	Q1	Q2	Q3	Q4	
Telecommunications					
Fiber and cable	\$ 255	\$	\$	\$	\$ 255
Hardware and equipment	135				135
Photonic technologies	34				34
Controls and connectors	39				39
Optical networking devices	<u>2</u>				<u>2</u>
Segment net sales	<u>\$ 465</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 465</u>
Advanced Materials					
Environmental	\$ 94	\$	\$	\$	\$ 94
Life sciences	70				70
Other advanced materials	<u>69</u>				<u>69</u>
Segment net sales	<u>\$ 233</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 233</u>
Information Display					
Display technologies	\$ 93	\$	\$	\$	\$ 93
Conventional video components	43				43
Precision lens	<u>59</u>				<u>59</u>
Segment net sales	<u>\$ 195</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 195</u>
2001					
	Q1	Q2	Q3	Q4	Total
Telecommunications					
Fiber and cable	\$ 875	\$ 939	\$ 779	\$ 296	\$2,889
Hardware and equipment	248	231	187	151	817
Photonic technologies	236	158	69	46	509
Controls and connectors	60	55	47	43	205
Optical networking devices	<u>14</u>	<u>10</u>	<u>7</u>	<u>7</u>	<u>38</u>
Segment net sales	<u>\$1,433</u>	<u>\$1,393</u>	<u>\$1,089</u>	<u>\$ 543</u>	<u>\$4,458</u>
Advanced Materials					
Environmental	\$ 108	\$ 96	\$ 90	\$ 85	\$ 379
Life sciences	70	69	65	63	267
Other advanced materials	<u>104</u>	<u>86</u>	<u>79</u>	<u>78</u>	<u>347</u>
Segment net sales	<u>\$ 282</u>	<u>\$ 251</u>	<u>\$ 234</u>	<u>\$ 226</u>	<u>\$ 993</u>
Information Display					
Display technologies	\$ 62	\$ 87	\$ 79	\$ 95	\$ 323
Conventional video components	86	73	47	46	252
Precision lens	<u>53</u>	<u>58</u>	<u>57</u>	<u>57</u>	<u>225</u>
Segment net sales	<u>\$ 201</u>	<u>\$ 218</u>	<u>\$ 183</u>	<u>\$ 198</u>	<u>\$ 800</u>