

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net sales	\$ 896	\$ 1,868	\$ 1,794	\$ 3,789
Cost of sales	<u>682</u>	<u>1,339</u>	<u>1,376</u>	<u>2,444</u>
Gross margin	214	529	418	1,345
Operating expenses				
Selling, general and administrative expenses	190	262	380	532
Research, development and engineering expenses	132	171	260	331
Amortization of purchased intangibles	11	10	22	23
Amortization of goodwill		150		293
Restructuring, impairment and other charges	<u>494</u>	<u>4,772</u>	<u>494</u>	<u>4,772</u>
Operating loss	(613)	(4,836)	(738)	(4,606)
Interest income	10	11	24	35
Interest expense	(44)	(34)	(92)	(68)
Gain on repurchases of debt	68		68	
Other expense, net	<u> </u>	<u>(12)</u>	<u>(9)</u>	<u>(21)</u>
Loss before income taxes	(579)	(4,871)	(747)	(4,660)
(Benefit) provision for income taxes	<u>(178)</u>	<u>(77)</u>	<u>(220)</u>	<u>31</u>
Loss before minority interest and equity earnings	(401)	(4,794)	(527)	(4,691)
Minority interest in losses (earnings) of subsidiaries	6	(7)	12	(12)
Equity in earnings of associated companies	<u>25</u>	<u>46</u>	<u>55</u>	<u>80</u>
Net loss	<u>\$ (370)</u>	<u>\$ (4,755)</u>	<u>\$ (460)</u>	<u>\$ (4,623)</u>
Basic and diluted loss per share	<u>\$ (0.39)</u>	<u>\$ (5.13)</u>	<u>\$ (0.49)</u>	<u>\$ (5.01)</u>
Net loss adjusted for the impact of SFAS No. 142 in 2001	<u>\$ (370)</u>	<u>\$ (4,652)</u>	<u>\$ (460)</u>	<u>\$ (4,384)</u>
Basic and diluted loss per share adjusted for the impact of SFAS No. 142 in 2001	<u>\$ (0.39)</u>	<u>\$ (5.02)</u>	<u>\$ (0.49)</u>	<u>\$ (4.75)</u>
Dividends declared per common share	<u>\$</u>	<u>\$ 0.06</u>	<u>\$</u>	<u>\$ 0.12</u>
Shares used in computing per share amounts for basic and diluted loss per share	<u>948</u>	<u>926</u>	<u>947</u>	<u>923</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 <u>June 30, 2002</u>	December 31, <u>2001</u>	Unaudited <u>June 30, 2001</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 940	\$ 1,037	\$ 614
Short-term investments, at fair value	<u>383</u>	<u>1,182</u>	<u>697</u>
Total cash and short-term investments	1,323	2,219	1,311
Trade accounts receivable, net of doubtful accounts and allowances - \$63, \$60 and \$42	605	593	1,246
Inventories	671	725	977
Deferred income taxes	400	347	308
Other current assets	<u>333</u>	<u>223</u>	<u>236</u>
Total current assets	3,332	4,107	4,078
Investments:			
Associated companies, at equity	666	636	537
Others, at cost or fair value	<u>74</u>	<u>142</u>	<u>190</u>
Total investments	740	778	727
Property, plant and equipment, at cost, net of accumulated depreciation - \$3,302, \$3,101 and \$2,921	4,757	5,097	5,301
Goodwill, net of accumulated amortization - \$661, \$661 and \$583	2,000	1,937	1,874
Other intangible assets, net of accumulated amortization - \$109, \$90 and \$75	390	352	409
Other assets	<u>667</u>	<u>522</u>	<u>262</u>
Total Assets	<u>\$ 11,886</u>	<u>\$ 12,793</u>	<u>\$ 12,651</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Loans payable	\$ 57	\$ 477	\$ 473
Accounts payable	310	441	512
Other accrued liabilities	<u>1,052</u>	<u>1,076</u>	<u>910</u>
Total current liabilities	1,419	1,994	1,895
Long-term debt	4,285	4,461	3,855
Postretirement benefits other than pensions	614	608	600
Other liabilities	379	190	212
Commitments and contingencies			
Minority interest in subsidiary companies	107	119	144
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	10,028	10,044	9,774
Accumulated deficit	(4,070)	(3,610)	(2,734)
Cost of 74 million, 79 million and 77 million shares of common stock in treasury	(775)	(827)	(804)
Accumulated other comprehensive loss	<u>(108)</u>	<u>(193)</u>	<u>(299)</u>
Total common shareholders' equity	<u>5,075</u>	<u>5,414</u>	<u>5,937</u>
Total Liabilities and Shareholders' Equity	<u>\$ 11,886</u>	<u>\$ 12,793</u>	<u>\$ 12,651</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 six months ended	
	June 30,	
	2002	2001
Cash flows from operating activities:		
Net loss	\$ (460)	\$ (4,623)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Amortization of purchased intangibles	22	23
Amortization of goodwill		293
Depreciation	329	318
Restructuring, impairment and other charges	494	4,772
Inventory write-down		273
Gain on repurchases of debt	(68)	
Stock compensation charges	2	27
Equity in earnings of associated companies less than (in excess of) dividends received	28	(23)
Minority interest, net of dividends paid	(12)	5
Deferred tax benefit	(107)	(122)
Tax benefit on stock options		25
Interest expense on convertible debentures	21	20
Restructuring payments	(116)	(5)
Changes in certain working capital items	(201)	(306)
Other, net	(80)	13
Net cash (used in) provided by operating activities	(148)	690
Cash flows from investing activities:		
Capital expenditures	(213)	(1,155)
Acquisitions of businesses, net of cash acquired		(66)
Net proceeds from sale or disposal of assets	36	27
Net increase in long-term investments and other long-term assets	(9)	(90)
Short-term investments - acquisitions	(847)	(232)
Short-term investments - liquidations	1,648	250
Other, net	(2)	
Net cash provided by (used in) investing activities	613	(1,266)
Cash flows from financing activities:		
Net (repayments) borrowings of short-term debt	(474)	263
Proceeds from issuance of long-term debt	11	68
Repayments of long-term debt	(155)	(93)
Proceeds from issuance of common stock	33	19
Redemption of common stock for income tax withholding		(19)
Dividends paid		(112)
Net cash (used in) provided by financing activities	(585)	126
Effect of exchange rates on cash	23	(6)
Cash used in continuing operations	(97)	(456)
Cash used in discontinued operations		(9)
Net decrease in cash and cash equivalents	(97)	(465)
Cash and cash equivalents at beginning of year	1,037	1,079
Cash and cash equivalents at end of period	\$ 940	\$ 614

The accompanying notes are an integral part of these statements.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Quarter 2, 2002

1. Operating Segments

Corning's reportable operating segments consist of Telecommunications, Advanced Materials and Information Display. Corning includes the earnings of equity affiliates that are closely associated with Corning's operating segments in segment net income. In the second quarter of 2002, Corning revised its definition of segment net income. Prior to the second quarter, Corning disclosed restructuring and impairment charges by segment but excluded this from quantitative segment results. These charges have been included in segment net income and historical periods have been conformed to this presentation. Information about the performance of Corning's three operating segments for the second quarter and six months of 2002 and 2001 is 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 GAAP. Segment net income may not be consistent with measures used by other companies.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2002	2001	2002	2001
Telecommunications				
Net sales	\$ 437	\$ 1,393	\$ 902	\$ 2,826
Research, development and engineering expenses	\$ 86	\$ 134	\$ 172	\$ 256
Interest expense	\$ 25	\$ 23	\$ 57	\$ 48
Segment (loss) earnings before equity (losses) earnings and restructuring, impairment and other charges	\$ (139)	\$ (7)	\$ (277)	\$ 170
Equity in (losses) earnings of associated companies	<u>(3)</u>	<u>8</u>	<u>(7)</u>	<u>11</u>
Segment (loss) earnings before restructuring, impairment and other charges	(142)	1	(284)	181
Restructuring, impairment and other charges, net of tax	<u>(259)</u>	<u>(4,726)</u>	<u>(259)</u>	<u>(4,726)</u>
Segment net loss	<u>\$ (401)</u>	<u>\$ (4,725)</u>	<u>\$ (543)</u>	<u>\$ (4,545)</u>
Advanced Materials				
Net sales	\$ 242	\$ 251	\$ 475	\$ 533
Research, development and engineering expenses	\$ 32	\$ 28	\$ 63	\$ 56
Interest expense	\$ 8	\$ 5	\$ 16	\$ 10
Segment earnings before equity earnings and restructuring charges	\$ 9	\$ 11	\$ 10	\$ 37
Equity in earnings of associated companies	<u>12</u>	<u>7</u>	<u>20</u>	<u>13</u>
Segment earnings before restructuring charges	21	18	30	50
Restructuring charges, net of tax	<u>(1)</u>	<u>—</u>	<u>(1)</u>	<u>—</u>
Segment net income	<u>\$ 20</u>	<u>\$ 18</u>	<u>\$ 29</u>	<u>\$ 50</u>
Information Display				
Net sales	\$ 212	\$ 218	\$ 407	\$ 419
Research, development and engineering expenses	\$ 14	\$ 9	\$ 25	\$ 19
Interest expense	\$ 9	\$ 6	\$ 17	\$ 10
Segment earnings before minority interest and equity earnings	\$ 8	\$ 25	\$ 11	\$ 46
Minority interest in losses (earnings) of subsidiaries	5	(7)	11	(12)
Equity in earnings of associated companies	<u>29</u>	<u>29</u>	<u>54</u>	<u>54</u>
Segment net income	<u>\$ 42</u>	<u>\$ 47</u>	<u>\$ 76</u>	<u>\$ 88</u>

	Three months ended		Six months ended	
	June 30,		June 30,	
	2002	2001	2002	2001
Total Segments				
Net sales	\$ 891	\$ 1,862	\$ 1,784	\$ 3,778
Research, development and engineering expenses	\$ 132	\$ 171	\$ 260	\$ 331
Interest expense	\$ 42	\$ 34	\$ 90	\$ 68
Segment (loss) earnings before minority interest equity earnings and restructuring, impairment and other charges	\$ (122)	\$ 29	\$ (256)	\$ 253
Minority interest in losses (earnings) of subsidiaries	5	(7)	11	(12)
Equity in earnings of associated companies	<u>38</u>	<u>44</u>	<u>67</u>	<u>78</u>
Segment (loss) earnings before restructuring, impairment and other charges	(79)	66	(178)	319
Restructuring, impairment and other charges, net of tax	<u>(260)</u>	<u>(4,726)</u>	<u>(260)</u>	<u>(4,726)</u>
Segment net loss	<u>\$ (339)</u>	<u>\$ (4,660)</u>	<u>\$ (438)</u>	<u>\$ (4,407)</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		Six months ended	
	June 30,		June 30,	
	2002	2001	2002	2001
Net sales				
Total segment net sales	\$ 891	\$ 1,862	\$ 1,784	\$ 3,778
Non-segment net sales (a)	<u>5</u>	<u>6</u>	<u>10</u>	<u>11</u>
Total net sales	<u>\$ 896</u>	<u>\$ 1,868</u>	<u>\$ 1,794</u>	<u>\$ 3,789</u>
Net loss				
Total segment net loss (b)	\$ (339)	\$ (4,660)	\$ (438)	\$ (4,407)
<i>Unallocated items:</i>				
Non-segment loss and other (a)	(1)	(2)	(2)	(3)
Amortization of goodwill (c)		(150)		(293)
Non-segment restructuring, impairment and other charges (d)	(127)		(127)	
Interest income (e)	10	11	24	35
Gain on repurchases of debt	68		68	
Income tax (f)	16	44	11	43
Minority interest	1		1	
Equity in earnings of associated companies (a)	<u>2</u>	<u>2</u>	<u>3</u>	<u>2</u>
Net loss	<u>\$ (370)</u>	<u>\$ (4,755)</u>	<u>\$ (460)</u>	<u>\$ (4,623)</u>

(a) Includes amounts derived from corporate investments and activities.

(b) Includes royalty, interest and dividend income.

(c) Amortization of goodwill relates primarily to the Telecommunications segment.

(d) Amount includes pension and postretirement benefit curtailment charges of \$30 million recorded in the second quarter of 2002. The balance of the charge relates to restructuring and impairment charges in the corporate research and administrative staff organizations.

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

(f) Includes tax associated with unallocated items.

2. Restructuring, Impairment and Other Charges

2002 Restructuring Actions

During the second quarter, Corning undertook actions to reduce its costs. The intent to do so was announced in April 2002. At that time, it was estimated that restructuring, fixed asset impairments, and impairments of investments could total approximately \$600 million and would be recorded over the second and third quarters.

Actions approved and initiated in the second quarter include the following:

- permanent abandonment of certain construction projects that had been stopped in 2001 in the fiber business within the Telecommunications Segment,
- closure of minor manufacturing facilities, primarily in the Telecommunications Segment,
- closure and consolidation of research facilities,
- elimination of 4,400 (includes 800 expected in Q3) positions worldwide through voluntary and involuntary programs, and
- divestiture of a portion of the controls and connectors business in the Telecommunications Segment.

In addition, Corning impaired cost based investments in a number of private telecommunications companies.

Certain of the costs associated with these activities (estimated at approximately \$120 million) will be recorded in the third quarter as all conditions for recognition had not been satisfied at June 30, 2002. These third quarter charges relate primarily to severance and fixed asset write-offs pertaining to facility closures outside the United States and early retirement programs.

These second quarter actions resulted in a net pre-tax charge totaling \$494 million (\$328 million after-tax) for the quarter ended June 30, 2002. The charge includes restructuring costs of \$204 million offset by a \$5 million reversal of the 2001 restructuring charge, \$224 million for the impairment of plant and equipment offset by a \$5 million reversal of the 2001 impairment charge, \$60 million for the impairment of cost investments and a \$16 million loss on divestiture. Approximately \$174 million of the charge recorded in the second quarter is expected to be paid in cash. As of June 30, 2002, approximately 1,600 of the 4,400 employees had been separated under the 2002 plans. Corning expects the remaining employees to be separated by March 31, 2003. Certain obligations of the plans will be paid in 2002 and beyond.

3. Gain on Repurchases of Debt

During the second quarter of 2002, Corning purchased and retired a portion of its zero coupon convertible debentures with an accreted value of \$220 million for cash of \$148 million in a series of open market repurchases. Corning recorded a gain of \$68 million on these transactions, net of the write-off of the unamortized issuance costs.

4. Income Taxes

Corning's effective income tax benefit rate for the three and six month periods ended June 30, 2002, was 30.7% and 29.5%, respectively. The tax benefit rate in the second quarter of 2002 was impacted by specific tax benefit calculations for restructuring, impairment and other charges and the gain on repurchases of debt. The effective benefit rate without consideration of these items was 25% in both 2002 periods. The effective tax benefit rate in the quarter and year to date 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.

Federal tax legislation passed early in 2002 extended the net operating loss carryback period from two to five years. Corning anticipates incurring a federal tax net operating loss for 2002 and this change in the tax legislation will allow Corning to carryback the net operating loss to open tax years and claim a tax refund. Current assets at June 30, 2002, include a receivable of \$135 million as a result of Corning availing itself of this opportunity.

The effective tax (benefit) rate for the three and six months ended June 30, 2001, was 1.6% and (0.7)%. These tax rates are much lower than the U.S. statutory income tax rate primarily due to non-tax deductible impairment and amortization of acquired intangibles and goodwill.

5. Supplementary Statement of Cash Flows Data

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

	For the six months ended June 30,	
	<u>2002</u>	<u>2001</u>
Changes in certain working capital items:		
Trade accounts receivable	\$ 10	\$ 10
Inventories	27	(231)
Other current assets	(56)	124
Accounts payable and other current liabilities, net of restructuring payments	(182)	(209)
Total	<u>\$ (201)</u>	<u>\$ (306)</u>

6. 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	\$ 212	\$	\$	\$ 467
Hardware and equipment	135	153			288
Photonic technologies (a)	36	39			75
Controls and connectors	39	33			72
Segment net sales	<u>\$ 465</u>	<u>\$ 437</u>	<u>\$</u>	<u>\$</u>	<u>\$ 902</u>
Advanced Materials					
Environmental	\$ 94	\$ 102	\$	\$	\$ 196
Life sciences	70	74			144
Other advanced materials	69	66			135
Segment net sales	<u>\$ 233</u>	<u>\$ 242</u>	<u>\$</u>	<u>\$</u>	<u>\$ 475</u>
Information Display					
Display technologies	\$ 93	\$ 102	\$	\$	\$ 195
Conventional video components	43	41			84
Precision lens	59	69			128
Segment net sales	<u>\$ 195</u>	<u>\$ 212</u>	<u>\$</u>	<u>\$</u>	<u>\$ 407</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	250	168	76	53	547
Controls and connectors	60	55	47	43	205
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	104	86	79	78	347
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	53	58	57	57	225
Segment net sales	<u>\$ 201</u>	<u>\$ 218</u>	<u>\$ 183</u>	<u>\$ 198</u>	<u>\$ 800</u>

(a) Optical network devices business has been combined with photonics technologies for all periods presented.

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited; in millions, except per share amounts)
Q2 '02 vs. Q1 '02

	For the three months ended	
	June 30,	March 31,
	2002	2002
Net sales	\$ 896	\$ 898
Cost of sales	<u>682</u>	<u>694</u>
Gross margin	214	204
Operating expenses:		
Selling, general and administrative expenses	190	190
Research, development and engineering expenses	132	128
Amortization of purchased intangibles	11	11
Restructuring, impairment and other charges	<u>494</u>	<u> </u>
Operating loss	(613)	(125)
Interest income	10	14
Interest expense	(44)	(48)
Gain on repurchases of debt	68	
Other expense, net	<u> </u>	<u>(9)</u>
Loss before income taxes	(579)	(168)
Benefit for income taxes	<u>(178)</u>	<u>(42)</u>
Loss before minority interest and equity earnings	(401)	(126)
Minority interest in losses of subsidiaries	6	6
Equity in earnings of associated companies	<u>25</u>	<u>30</u>
Net loss	<u>\$ (370)</u>	<u>\$ (90)</u>
Basic and diluted loss per share	<u>\$ (0.39)</u>	<u>\$ (0.10)</u>
Shares used in computing per share amounts for basic and diluted loss per share	<u>948</u>	<u>945</u>

CORNING INCORPORATED AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)
Q2 '02 vs. Q1 '02

	For the three months ended	
	June 30,	March 31,
	<u>2002</u>	<u>2002</u>
Cash flows from operating activities:		
Net loss	\$ (370)	\$ (90)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of purchased intangibles	11	11
Depreciation	166	163
Restructuring, impairment and other charges	494	
Stock compensation charges	1	1
Gain on repurchases of debt	(68)	
Equity in earnings of associated companies less than dividends received	5	23
Minority interest, net of dividends paid	(6)	(6)
Deferred tax benefit	(37)	(70)
Interest expense on convertible debentures	11	10
Restructuring payments	(58)	(58)
Changes in certain working capital items	(56)	(145)
Other, net	<u>(70)</u>	<u>(10)</u>
Net cash provided by (used in) operating activities	<u>23</u>	<u>(171)</u>
Cash flows from investing activities:		
Capital expenditures	(111)	(102)
Net proceeds from sale or disposal of assets	31	5
Net (increase) decrease in long-term investments and other long-term assets	(10)	1
Short-term investments - acquisitions	(244)	(603)
Short-term investments - liquidations	729	919
Other, net	<u>(1)</u>	<u>(1)</u>
Net cash provided by investing activities	<u>394</u>	<u>219</u>
Cash flows from financing activities:		
Net repayments of short-term debt	(331)	(143)
Proceeds from issuance of long-term debt		11
Repayments of long-term debt	(151)	(4)
Proceeds from issuance of common stock	<u>18</u>	<u>15</u>
Net cash used in financing activities	<u>(464)</u>	<u>(121)</u>
Effect of exchange rates on cash	<u>29</u>	<u>(6)</u>
Net decrease in cash and cash equivalents	(18)	(79)
Cash and cash equivalents at beginning of period	<u>958</u>	<u>1,037</u>
Cash and cash equivalents at end of period	<u>\$ 940</u>	<u>\$ 958</u>