

CORNING

# Understanding our 2015 Disclosures Related to Translation Hedging Program

April 27, 2016  
Corning Incorporated

# Use of Core Performance (non-GAAP) Measures

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- We utilize certain financial measures and key performance indicators that are not calculated in accordance with GAAP to assess our financial and operating performance. A non-GAAP financial measure is defined as a numerical measure of a company's financial performance that (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the comparable measure calculated and presented in accordance with GAAP in the statement of income or statement of cash flows, or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measure so calculated and presented.
- Core Performance net sales, Core Performance equity earnings of affiliated companies and Core Earnings are non-GAAP financial measures utilized by our management to analyze financial performance without the impact of items that are driven by general economic conditions and events that do not reflect the underlying fundamentals and trends in the Company's operations. The reconciliation between these non-GAAP measures and their most directly comparable GAAP measure can be found on the company's investor relations website.

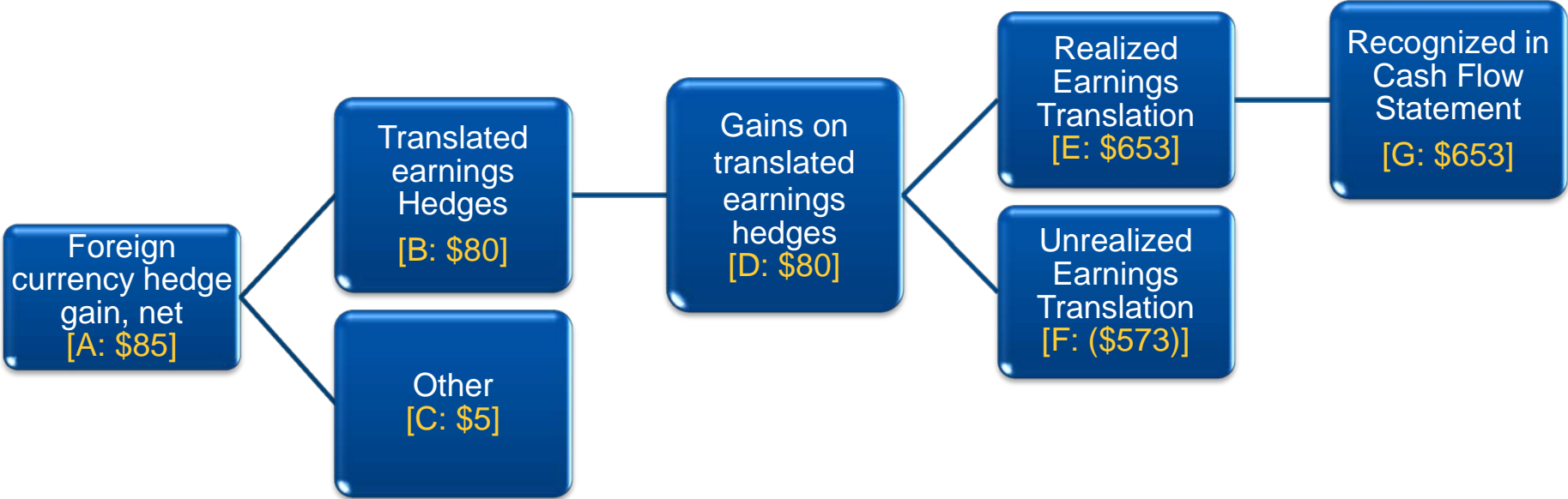
# Introduction

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- **Yen hedges mitigate impact of currency exchange rate movements on earnings and cash flow**
  - Hedge contracts settled in any given quarter substantially offset the change in Display's translated Yen earnings and cash flow in that quarter
- Core measures (non-GAAP) exclude the impact of changes in Japanese yen and Korean won foreign exchange rates on our results by using a constant-yen (¥99) and constant-won (KRW 1,100) convention
  - Core measures also exclude the impact of gains and losses of our foreign currency hedges related to translated earnings
- GAAP accounting results can include large unrealized, gains/losses in any given quarter
  - Hedge portfolio revalued to appropriate period-end currency rates; difference from prior quarter value recorded in P&L (**“mark to market” adjustment is non-cash**)
  - Q3 '14 & Q4 '14 included large “unrealized gains” because the Yen weakened
  - Q1 '16 included large “unrealized loss” of \$599M because Yen strengthened

# Gains/losses on FX derivatives flow through multiple parts of our financial disclosures

## Reporting of 2015 Foreign Currency Derivatives Results 2015 Form 10-K



# Flow of Information through our 2015 Form 10-K

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- 1) Consolidated Statements of Income provides the “Foreign currency hedge gain, net” (2015 Form 10-K, page 86)
- 2) This gain is bifurcated between Hedges related to translated earnings and other foreign exchange contracts related to our balance sheet and intercompany loan hedging programs (2015 Form 10-K, page 33 and page 128)
- 3) Translated earnings contract gain is bifurcated between realized and unrealized (2015 Form 10-K, page 33)
- 4) Unrealized, noncash gains/losses on translated earnings hedges are included as a non-cash adjustment in “Cash Flows from Operating Activities” (2015 Form 10-K, page 89)
- 5) Realized gains are reported as cash inflows in “Cash Flows from Investing Activities” (2015 Form 10-K, page 89)
- 6) The impact of exchange rate movements is quantified in the constant currency portion of the Reconciliation of Non-GAAP measures (2015 Form 10-K, page 40)
- 7) The constant currency adjustment (step #6) can be compared to the realized translated earnings results (step #5)

# Reconciliation of non-GAAP measures is useful for understanding the impact of translated earnings\*

The following table reconciles our non-GAAP financial measures to their most directly comparable GAAP financial measure.

	Year ended December 31, 2015					
	Net sales	Equity earnings	Income before income taxes	Net income	Effective tax rate	Earnings per share
As reported	\$ 9,111	\$ 299	\$ 1,486	\$ 1,339	9.9%	\$ 1.00
Constant-yen (1)	687	6	567	423		0.31
Constant-won (1)	2	(2)	(25)	(19)		(0.01)
Foreign currency hedges related to translated earnings (2)			(80)	(48)		(0.04)
Acquisition-related costs (3)			55	36		0.03
Discrete tax items and other tax-related adjustments (4)				36		0.03
Litigation, regulatory and other legal matters (5)			5	3		
Restructuring, impairment and other charges (6)			46	42		0.03
Liquidation of subsidiary (7)						
Equity in earnings of affiliated companies (8)		(34)	(34)	(33)		(0.02)
Impacts from the acquisition of Samsung Corning Precision Materials (9)			(20)	(18)		(0.01)
Post-combination expenses (10)			25	16		0.01
Pension mark-to-market adjustment (11)			165	105		0.08
<b>Core performance measures</b>	<b>\$ 9,800</b>	<b>\$ 269</b>	<b>\$ 2,190</b>	<b>\$ 1,882</b>	<b>14.1%</b>	<b>\$ 1.40</b>

\* See Appendix for description of adjustments

## Realized hedge gains related to translated earnings hedges were effective in offsetting losses on our FX exposures

2015 (\$ millions)	Income Before Income Taxes	Net Income
Constant-yen	\$567 <b>H</b>	\$423 <b>J</b>
Constant-won	<u>(25)</u> <b>I</b>	<u>(19)</u> <b>K</b>
(Gain)/loss on exposures	\$542	\$404
Realized gains on hedges related to translated earnings	\$653 <b>E</b>	\$410 <b>L</b>
<i>Hedge Effectiveness</i>	\$111	<b>\$6</b>

Our earnings translation program has been effective

Note: Hedges are executed in the US and are subject to a different tax rate than international businesses

# The gain/loss on FX hedges is reported as a separate line item in the P/L

## Consolidated Statements of Income

Corning Incorporated and Subsidiary Companies

(In millions, except per share amounts)	Years ended December 31,		
	2015	2014	2013
Net sales	\$ 9,111	\$ 9,715	\$ 7,819
Cost of sales	5,458	5,663	4,495
Gross margin	3,653	4,052	3,324
Operating expenses:			
Selling, general and administrative expenses	1,523	1,211	1,126
Research, development and engineering expenses	769	815	710
Amortization of purchased intangibles	54	33	31
Restructuring, impairment and other charges (Note 2)		71	67
Asbestos litigation (credit) charges (Note 7)	(15)	(9)	19
Operating income	1,322	1,931	1,371
Equity in earnings of affiliated companies (Note 7)	299	266	547
Interest income	21	26	8
Interest expense	(140)	(123)	(120)
Transaction-related gain, net (Note 8)		74	
Foreign currency hedge gain, net	<b>A</b> 85	1,411	622
Other (expense) income, net	(101)	(17)	45
Income before income taxes	1,486	3,568	2,473
Provision for income taxes (Note 6)	(147)	(1,096)	(512)
Net income attributable to Corning Incorporated	\$ 1,339	\$ 2,472	\$ 1,961



# Disclosures in “Management Discussion and Analysis, Results of Operations” provide details on foreign currency hedges

## *Foreign Currency Hedge Gain, Net*

Included in the line item Foreign currency hedge gain, net, is the impact of foreign currency hedges which hedge our translation exposure arising from movements in the Japanese yen, South Korean won and euro against the U.S. dollar and its impact on our net earnings, as well as other foreign exchange hedges that limit exposures to foreign functional currency fluctuations. The following tables provide detailed information on the impact of our foreign currency hedge gains and losses:

	Year ended December 31, 2015		Year ended December 31, 2014		Change 2015 vs. 2014	
	Income before income taxes	Net income	Income before income taxes	Net income	Income before income taxes	Net income
(in millions)						
Hedges related to translated earnings:						
Realized gains, net	\$ 653	\$ 410	\$ 274	\$ 224	\$ 379	\$ 186
Unrealized (losses) gains	(573)	(362)	1,095	692	(1,668)	(1,054)
Total translated earnings						
contract gain	<b>B</b> 80	48	1,369	916	(1,289)	(868)
Foreign currency hedges, other	5 <b>C</b>	3	42	27	(37)	(24)
Foreign Currency Hedge Gain, Net	\$ 85	\$ 51	\$ 1,411	\$ 943	\$ (1,326)	\$ (892)

# The gains/losses on translated earnings hedges do not impact operating cash flows

## Consolidated Statements of Cash Flows

Corning Incorporated and Subsidiary Companies


(In millions)	Years ended December 31,		
	2015	2014	2013
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 1,339 <sup>1</sup>	\$ 2,472	\$ 1,961
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,130	1,167	971
Amortization of purchased intangibles	54	33	31
Restructuring, impairment and other charges		71	67
Stock compensation charges	46	58	54
Equity in earnings of affiliated companies	(299)	(266)	(547)
Dividends received from affiliated companies	143	1,704	630
Deferred tax provision	54	612	189
Restructuring payments	(40)	(39)	(35)
Customer deposits	197		
Employee benefit payments (in excess of) less than expense	(52)	(52)	52
Gains on foreign currency hedges related to translated earnings	(80)	(1,369)	(435)
Unrealized translation losses on transactions <sup>2</sup>	268	431	96
Contingent consideration fair value adjustment	(13)	(249)	
Changes in certain working capital items:			
Trade accounts receivable	162	(16)	(29)
Inventories	(77)	2	(247)
Other current assets	(57)	(16)	34
Accounts payable and other current liabilities	(146)	(3)	(23)
Other, net	180	169	18
<b>Net cash provided by operating activities</b>	<b>2,809</b>	<b>4,709</b>	<b>2,787</b>

1) Net Income includes \$80M gain (\$653M realized & (\$573M) unrealized) from translated earnings contracts

2) Non-cash adjustment related to translation capital on intercompany accounts (does not relate to translated earnings hedges)

## Realized gains/losses on translated earnings hedges are shown as a cash inflow in “Investing Activities” in the Statement of Cash Flows

### Cash Flows from Investing Activities:

Capital expenditures	(1,250)	(1,076)	(1,019)
Acquisitions of businesses, net of cash (paid) received	(732)	66	(68)
Proceeds from sale of a business	12		
Investment in unconsolidated entities	(33)	(109)	(526)
Proceeds from loan repayments from unconsolidated entities	6	23	8
Short-term investments – acquisitions	(969)	(1,398)	(1,406)
Short-term investments – liquidations	1,629	1,167	2,026
Premium on purchased collars			(107)
Realized gains on foreign currency hedges related to translated earnings	 653	361	87
Other, net	(1)	4	1
<b>Net cash used in investing activities</b>	<b>(685)</b>	<b>(962)</b>	<b>(1,004)</b>

# We disclose details of foreign currency hedge gains and losses in “Management Discussion and Analysis, Results of Operations”

## *Foreign Currency Hedge Gain, Net*

Included in the line item Foreign currency hedge gain, net, is the impact of foreign currency hedges which hedge our translation exposure arising from movements in the Japanese yen, South Korean won and euro against the U.S. dollar and its impact on our net earnings, as well as other foreign exchange hedges that limit exposures to foreign functional currency fluctuations. The following tables provide detailed information on the impact of our foreign currency hedge gains and losses:

	Year ended December 31, 2015		Year ended December 31, 2014		Change 2015 vs. 2014	
	Income before income taxes	Net income	Income before income taxes	Net income	Income before income taxes	Net income
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# Appendix

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# Items Excluded from GAAP Measures

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Items which we exclude from GAAP measures to arrive at Core performance measures are as follows:

(1) Constant-currency adjustments:

Constant-yen: Because a significant portion of Display Technologies segment revenues and manufacturing costs are denominated in Japanese yen, management believes it is important to understand the impact on core earnings of translating yen into dollars. Presenting results on a constant-yen basis mitigates the translation impact of the Japanese yen, and allows management to evaluate performance period over period, analyze underlying trends in our businesses, and establish operational goals and forecasts. As of January 1, 2015, we used an internally derived management rate of ¥99, which is closely aligned to our current yen portfolio of foreign currency hedges, and have recast all periods presented based on this rate in order to effectively remove the impact of changes in the Japanese yen.

Constant-won: Following the acquisition of Samsung Corning Precision Materials and because a significant portion of Corning Precision Materials' costs are denominated in South Korean won, management believes it is important to understand the impact on core earnings from translating won into dollars. Presenting results on a constant-won basis mitigates the translation impact of the South Korean won, and allows management to evaluate performance period over period, analyze underlying trends in our businesses, and establish operational goals and forecasts without the variability caused by the fluctuations caused by changes in the rate of this currency. We use an internally derived management rate of 1,100, which is consistent with historical prior period averages of the won.

- (2) Foreign currency hedges related to translated earnings: We have excluded the impact of the gains and losses of our foreign currency hedges related to translated earnings for each period presented.
- (3) Acquisition-related costs: These expenses include intangible amortization, inventory valuation adjustments and external acquisition-related deal costs.
- (4) Discrete tax items and other tax-related adjustments: This represents the removal of discrete adjustments attributable to changes in tax law and changes in judgment about the realizability of certain deferred tax assets, as well as other non-operational tax-related adjustments, including the tax effect of transfer pricing out-of-period adjustments in 2014 and 2015.

## Items Excluded from GAAP Measures (continued)

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- (5) Litigation, regulatory and other legal matters: Includes amounts related to the Pittsburgh Corning Corporation (PCC) asbestos litigation, adjustments to our estimated liability for environmental-related items and other legal matters.
- (6) Restructuring, impairment and other charges: This amount includes restructuring, impairment and other charges, including goodwill impairment charges and other expenses and disposal costs not classified as restructuring expense.
- (7) Liquidation of subsidiary: The partial impact of non-restructuring related items due to the decision to liquidate a consolidated subsidiary that is not significant.
- (8) Equity in earnings of affiliated companies: These adjustments relate to items which do not reflect expected on-going operating results of our affiliated companies, such as restructuring, impairment and other charges and settlements under “take-or-pay” contracts. In 2013, we excluded the operating results of Dow Corning’s consolidated subsidiary Hemlock Semiconductor, a producer of polycrystalline silicon, to remove the impact of the severe unpredictability and instability in the polysilicon market.
- (9) Impacts from the acquisition of Samsung Corning Precision Materials: Pre-acquisition gains and losses on previously held equity investment and other gains and losses related to the acquisition, including post-combination expenses, fair value adjustments to the indemnity asset related to contingent consideration and the impact of the withholding tax on a dividend from Samsung Corning Precision Materials.
- (10) Post-combination expenses: Post-combination expenses incurred as a result of an acquisition in the first quarter of 2015.
- (11) Pension mark-to-market adjustment: Mark-to-market pension gains and losses, which arise from changes in actuarial assumptions and the difference between actual and expected returns on plan assets and discount rates.
- (12) Gain on change in control of equity investment: Gain as a result of certain changes to the shareholder agreement of an equity company, resulting in Corning having a controlling interest that requires consolidation of this investment.

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