

CORNING INC /NY  
Form 10-K  
February 13, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_ to \_\_\_  
Commission file number: 1-3247

CORNING INCORPORATED  
(Exact name of registrant as specified in its charter)

NEW YORK  
(State or other jurisdiction of incorporation or organization)

16-0393470  
(I.R.S. Employer Identification No.)

ONE RIVERFRONT PLAZA, CORNING, NY  
(Address of principal executive offices)

14831  
(Zip Code)

607-974-9000  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

|  |   |
|--|---|
| Title of each class                      | Name of each exchange on which registered |
| Common Stock, \$0.50 par value per share | New York Stock Exchange                   |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.  
Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to

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file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|                         |                                     |                           |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of June 30, 2014, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$28 billion based on the \$21.95 price as reported on the New York Stock Exchange.

There were 1,271,340,532 shares of Corning's common stock issued and outstanding as of January 30, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement dated March 17, 2015, and filed for the Registrant's 2015 Annual Meeting of Shareholders are incorporated into Part III, as specifically set forth in Part III.

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## PART I

Corning Incorporated and its consolidated subsidiaries are hereinafter sometimes referred to as the “Company,” the “Registrant,” “Corning,” or “we.”

This report contains forward-looking statements that involve a number of risks and uncertainties. These statements relate to our future plans, objectives, expectations and estimates and may contain words such as “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” or similar expressions. Our actual results could differ materially from what is expressed or forecasted in our forward-looking statements. Some of the factors that could contribute to these differences include those discussed under “Forward-Looking Statements,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this report.

### Item 1. Business

#### General

Corning traces its origins to a glass business established in 1851. The present corporation was incorporated in the State of New York in December 1936. The Company’s name was changed from Corning Glass Works to Corning Incorporated on April 28, 1989.

Corning Incorporated is a world leader in the manufacture of specialty glass and ceramics. Drawing on more than 160 years of materials science and process engineering knowledge, Corning creates and makes keystone components that enable high-technology systems for consumer electronics, mobile emissions control, optical communications and life sciences. Corning operates in five reportable segments: Display Technologies, Optical Communications, Environmental Technologies, Specialty Materials and Life Sciences. Corning manufactures and processes products at approximately 90 plants in 17 countries.

#### Display Technologies Segment

Corning’s Display Technologies segment manufactures glass substrates for active matrix liquid crystal displays (“LCDs”) that are used primarily in LCD televisions, notebook computers and flat panel desktop monitors. This segment develops, manufactures and supplies high quality glass substrates using technology expertise and a proprietary fusion manufacturing process, which Corning invented and is the cornerstone of the Company’s technology leadership in the LCD industry. The automated process yields high quality glass substrates with excellent dimensional stability and uniformity – essential attributes for the production of large, high performance active matrix LCDs. Corning’s fusion process is scalable and is thought to be the most effective process in producing large size substrates. We are recognized for providing product innovations that help our customers produce larger, lighter, thinner and higher-resolution displays more affordably. In 2006, Corning launched EAGLE XG®, the industry’s first LCD glass substrate that is free of heavy metals. In 2010, leveraging the EAGLE XG® composition, Corning introduced EAGLE XG® Slim glass, a line of slim glass substrates which enables lighter-weight portable devices and thinner televisions and monitors. In 2011, Corning launched Corning Lotus™ Glass, a high-performance display glass developed to enable cutting-edge technologies, including organic light-emitting diode (“OLED”) displays and next generation LCDs. Corning Lotus Glass helps support the demanding manufacturing processes of both OLED and liquid crystal displays for high performance, portable devices such as smart phones, tablets, and notebook computers. In 2012, Corning introduced Corning® Willow™ Glass, our ultra-slim flexible glass for use in next-generation consumer electronic technologies. Not only does this technology support thinner backplanes for both OLED and LCD displays, it also allows for curved displays for immersive viewing or mounting on non-flat surfaces. In 2013, Corning announced the commercial launch of Corning Lotus™ XT Glass, a second-generation glass

substrate specially formulated for high-performance displays. The Corning Lotus Glass platform offers an energy-efficient, immersive display device that features high resolution, fast response times, and bright picture quality. In January 2015, Corning introduced Corning Iris™ Glass, a substrate that can significantly reduce the thickness of a liquid crystal display television set, making it as thin as a smartphone, as well as providing outstanding transmission quality.

Through the end of 2013, the Display Technologies segment also included the equity affiliate Samsung Corning Precision Materials Co., Ltd. (“Samsung Corning Precision Materials”), of which Corning owned 57.5% and Samsung Display Co., Ltd. (“Samsung Display”) owned 42.5%. To extend Corning’s leadership in specialty glass and drive earnings growth, Corning entered into a series of strategic and financial agreements with Samsung Display intended to strengthen product and technology collaborations between the two companies (“Acquisition”). Corning completed this transaction on January 15, 2014.

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The following is a summary of the series of transactions, and the impacts to the Display Technologies segment:

- Corning obtained full ownership of Samsung Corning Precision Materials. This organization, named Corning Precision Materials, was integrated into Corning's Display Technologies segment during 2014.
  - Corning and Samsung Display extended their long-term LCD display glass supply agreement through 2023.
- The two companies' strengthened their technology collaborations on strategic product development and commercialization initiatives.

In connection with these agreements, in the fourth quarter of 2013, Corning acquired the minority interests of three shareholders in Samsung Corning Precision Materials for \$506 million, which included payment for the transfer of non-operating assets and the pro-rata portion of cash on Samsung Corning Precision Materials' balance sheet at September 30, 2013. The resulting transfer of shares to Corning increased Corning's ownership percentage of Samsung Corning Precision Materials from 50% to 57.5%. Because this transaction did not result in a change in control based on the governing documents of this entity, Corning did not consolidate this entity as of December 31, 2013. The remaining transactions were completed on January 15, 2014, which increased Corning's ownership to 100% and resulted in consolidation of the entity beginning in the first quarter of 2014.

LCD glass manufacturing is a capital intensive business. Important attributes for success include efficient manufacturing, access to capital, technology know-how, and patents. As a result of the transactions with Samsung Display, Corning expects to realize increased flexibility in glass-melting capabilities, which will allow the company to re-evaluate the need for major capital expenditures for additional fusion glass manufacturing assets.

Corning has LCD glass manufacturing operations in the United States, South Korea, Japan, Taiwan and China. Following the Acquisition, Corning services all specialty glass customers in all regions directly, utilizing its manufacturing facilities throughout Asia.

Patent protection and proprietary trade secrets are important to the Display Technologies segment's operations. Corning has a growing portfolio of patents relating to its products, technologies and manufacturing processes. Corning licenses certain of its patents to third parties and generates royalty income from these licenses. Refer to the material under the heading "Patents and Trademarks" for information relating to patents and trademarks.

The Display Technologies segment represented 40% of Corning's sales in 2014.

#### Optical Communications Segment

Corning invented the world's first low-loss optical fiber in 1970. Since that milestone, we have continued to pioneer optical fiber, cable and connectivity solutions. As global bandwidth demand driven by video usage grows exponentially, networks continue to migrate from copper to optical-based systems that can deliver the required cost-effective bandwidth-carrying capacity. Our unrivaled experience puts us in a unique position to design and deliver optical solutions that reach every edge of the communications network.

Our Optical Communications segment has recently evolved from being a manufacturer of optical fiber and cable, hardware and equipment to being a comprehensive provider of industry-leading optical solutions across the broader communications industry. This segment is classified into two main product groupings – carrier network and enterprise network. The carrier network product group consists primarily of products and solutions for optical-based communications infrastructure for services such as video, data and voice communications. The enterprise network product group consists primarily of optical-based communication networks sold to businesses, governments and

individuals for their own use.

Our carrier network product portfolio begins with optical fiber products, including Vascade® submarine optical fibers for use in submarine networks; LEAF® optical fiber for long-haul, regional and metropolitan networks; SMF-28® ULL fiber for more scalable long-haul and regional networks; SMF-28e+™ single-mode optical fiber that provides additional transmission wavelengths in metropolitan and access networks; ClearCurve® ultra-bendable single-mode fiber for use in multiple-dwelling units and fiber-to-the-home applications; and Corning® SMF-28® Ultra Fiber, designed for high performance across the range of long-haul, metro, access, and fiber-to-the-home network applications, combining the benefits of industry-leading attenuation and improved macrobend performance in one fiber. Our optical fiber is sold directly to end users or third-party cabling companies around the world. Corning's remaining fiber production is cabled internally and sold to end users as either bulk cable or as part of an integrated optical solution. Corning's cable products support various outdoor, indoor/outdoor and indoor applications and include a broad range of loose tube, ribbon and drop cable designs with flame-retardant versions available for indoor and indoor/outdoor use.

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In addition to optical fiber and cable, our carrier network product portfolio also includes hardware and equipment products, including cable assemblies, fiber optic hardware, fiber optic connectors, optical components and couplers, closures, network interface devices, and other accessories. These products may be sold as individual components or as part of integrated optical connectivity solutions designed for various carrier network applications. Examples of these solutions include our FlexNAPT<sup>TM</sup> terminal distribution system, which provides pre-connectorized distribution and drop cable assemblies for cost-effectively deploying Fiber-to-the-Home (“FTTH”) networks; and the Centrix<sup>TM</sup> platform, which provides a high-density fiber management system with industry-leading density and innovative jumper routing that can be deployed in a wide variety of carrier switching centers.

To keep pace with surging demand for mobile bandwidth, Corning has a full complement of operator-grade distributed antenna systems (“DAS”), including the recently developed Optical Network Evolution (“ONE”) wireless platform. ONE is the first all-optical converged cellular and Wi-Fi<sup>®</sup> solution built on an all-optical backbone with modular service support. The ONE<sup>TM</sup> Wireless Platform provides virtually unlimited bandwidth, and meets all of the wireless service needs of large-scale enterprises at a lower cost than the typical DAS solution.

In addition to our optical-based portfolio, Corning’s carrier network portfolio also contains select copper-based products including subscriber demarcation, connection and protection devices, xDSL (different variations of digital subscriber lines) passive solutions and outside plant enclosures. In addition, Corning offers coaxial RF interconnects for the cable television industry as well as for microwave applications for GPS, radars, satellites, manned and unmanned military vehicles, and wireless and telecommunications systems.

Our enterprise network product portfolio also includes optical fiber products, including ClearCurve<sup>®</sup> ultra-bendable multimode fiber for data centers and other enterprise network applications; InfiniCor<sup>®</sup> fibers for local area networks; and more recently ClearCurve<sup>®</sup> VSDN<sup>®</sup> ultra-bendable optical fiber designed to support emerging high-speed interconnects between computers and other consumer electronics devices. The remainder of Corning’s fiber production is cabled internally and sold to end users as either bulk cable or as part of an integrated optical solution. Corning’s cable products include a broad range of tight-buffered, loose tube and ribbon cable designs with flame-retardant versions available for indoor and indoor/outdoor applications that meet local building code requirements.

Corning’s hardware and equipment products for enterprise network applications include cable assemblies, fiber optic hardware, fiber optic connectors, optical components and couplers, closures and other accessories. These products may be sold as individual components or as part of integrated optical connectivity solutions designed for various network applications. Examples of enterprise network solutions include the Pretium EDGE<sup>®</sup> platform, which provides high-density pre-connectorized solutions for data center applications, and continues to evolve with recent updates for upgrading to 40/100G applications and port tap modules for network monitoring; the previously mentioned ONE Wireless platform, which spans both carrier and enterprise network applications; and our recently introduced optical connectivity solutions to support customer initiatives.

In 2014, we introduced Corning<sup>®</sup> Fibrance<sup>TM</sup> Light-Diffusing Fiber, a glass optical fiber optimized for thin, colorful, aesthetic lighting. Fibrance Light-Diffusing Fiber enables decorative lighting to be designed or embedded into tight or small places where other bulky lighting elements cannot fit, thereby enhancing a product’s overall aesthetics and user experience, and opening up new design possibilities for a variety of markets such as automotive, architecture, consumer electronics or appliances.

Corning operates manufacturing facilities worldwide. Our optical fiber manufacturing facilities are located in North Carolina, China and India. Cabling operations include facilities in North Carolina, Germany, Poland, China and smaller regional locations and equity affiliates. Our manufacturing operations for hardware and equipment products

are located in North Carolina, Texas, Arizona, Mexico, Brazil, Denmark, Germany, Poland, Israel, Australia and China.

Patent protection is important to the segment's operations. The segment has an extensive portfolio of patents relating to its products, technologies and manufacturing processes. The segment licenses certain of its patents to third parties and generates revenue from these licenses, although the royalty income is not currently material to this segment's operating results. Corning is licensed to use certain patents owned by others, which are considered important to the segment's operations. Refer to the material under the heading "Patents and Trademarks" for information relating to the Company's patents and trademarks.

The Optical Communications segment represented 27% of Corning's sales for 2014.

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## Environmental Technologies Segment

Corning's Environmental Technologies segment manufactures ceramic substrates and filter products for emissions control in mobile and stationary applications around the world. In the early 1970s, Corning developed an economical, high-performance cellular ceramic substrate that is now the standard for catalytic converters in vehicles worldwide. As global emissions control regulations tighten, Corning has continued to develop more effective and durable ceramic substrate and filter products for gasoline and diesel applications. Corning manufactures substrate and filter products in New York, Virginia, China, Germany and South Africa. Corning sells its ceramic substrate and filter products worldwide to catalyzers and manufacturers of emission control systems who then sell to automotive and diesel vehicle or engine manufacturers. Although most sales are made to the emission control systems manufacturers, the use of Corning substrates and filters is generally required by the specifications of the automotive and diesel vehicle or engine manufacturers.

Patent protection is important to the segment's operations. The segment has an extensive portfolio of patents relating to its products, technologies and manufacturing processes. Corning is licensed to use certain patents owned by others, which are also considered important to the segment's operations. Refer to the material under the heading "Patents and Trademarks" for information relating to the Company's patents and trademarks.

The Environmental Technologies segment represented 11% of Corning's sales for 2014.

## Specialty Materials Segment

The Specialty Materials segment manufactures products that provide more than 150 material formulations for glass, glass ceramics and fluoride crystals to meet demand for unique customer needs. Consequently, this segment operates in a wide variety of commercial and industrial markets that include display optics and components, semiconductor optics components, aerospace and defense, astronomy, ophthalmic products, telecommunications components and cover glass that is optimized for portable display devices.

Our cover glass, known as Corning® Gorilla® Glass, is a thin sheet glass designed specifically to function as a cover glass for display devices such as tablets, notebook PCs and mobile phones. Elegant and lightweight, Corning Gorilla Glass is durable enough to resist many real-world events that commonly cause glass failure, enabling exciting new applications in technology and design. Early in 2012, Corning launched Corning® Gorilla® Glass 2, the next generation in our Corning Gorilla Glass suite of products. Corning Gorilla Glass 2 enables up to a 20% reduction in glass thickness, while maintaining the industry-leading damage resistance, toughness and scratch-resistance. In 2013, we introduced Corning® Gorilla® Glass 3 with Native Damage Resistance and Corning® Gorilla® Glass NBT™, designed to help protect touch notebook displays from scratches and other forms of damage that come from everyday handling and use. And in the fourth quarter of 2014, Corning announced its latest breakthrough innovation in consumer electronics material design, Corning® Gorilla® Glass 4, which delivers the highest damage resistance performance versus all alternative compositions, and has the capability to significantly improve device drop performance.

Corning Gorilla Glass is manufactured in Kentucky, South Korea, Japan and Taiwan.

Semiconductor optics manufactured by Corning includes high-performance optical material products, optical-based metrology instruments, and optical assemblies for applications in the global semiconductor industry. Corning's semiconductor optics products are manufactured in New York.

Other specialty glass products include glass lens and window components and assemblies and are made in New York, New Hampshire, Kentucky and France or sourced from China.

Patent protection is important to the segment's operations. The segment has a growing portfolio of patents relating to its products, technologies and manufacturing processes. Brand recognition and loyalty, through well-known trademarks, are important to the segment. Refer to the material under the heading "Patents and Trademarks" for information relating to the Company's patents and trademarks.

The Specialty Materials segment represented approximately 12% of Corning's sales for 2014.

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## Life Sciences Segment

As a leading developer, manufacturer and global supplier of scientific laboratory products for 100 years, Corning's Life Sciences segment collaborates with researchers seeking new approaches to increase efficiencies, reduce costs and compress timelines in the drug discovery process. Using unique expertise in the fields of materials science, surface science, optics, biochemistry and biology, the segment provides innovative solutions that improve productivity and enable breakthrough discoveries.

Life Sciences laboratory products include general labware and equipment, as well as specialty surfaces, media and reagents that are used for cell culture research, bioprocessing, genomics, drug discovery, microbiology and chemistry. Corning sells life science products under these primary brands: Corning, Falcon, PYREX, Axygen, and Gosselin. The products are marketed worldwide, primarily through distributors to pharmaceutical and biotechnology companies, academic institutions, hospitals, government entities, and other research facilities. Corning manufactures these products in the United States in Maine, New York, New Jersey, California, Utah, Virginia, Massachusetts and North Carolina, and outside of the U.S. in Mexico, France, Poland, and China.

In addition to being a global leader in consumable glass and plastic laboratory tools for life science research, Corning continues to develop and produce unique technologies aimed at simplifying customer lab processes, or "workflows", through three key categories:

- Vessels – Corning® HYPER platform of vessels for increased cell yields; Corning® Microcarriers for cell scale-up, therapy and vaccine applications;
- Surfaces – Corning® CellBIND® Surface; Corning® Matrigel®; Corning® BioCoat™; Corning Synthemax® II Surface;
- Media – Corning® stemgro®

Patent protection is important to the segment's operations. The segment has a growing portfolio of patents relating to its products, technologies and manufacturing processes. Brand recognition and loyalty, through well-known trademarks, are important to the segment. Refer to the material under the heading "Patents and Trademarks" for information relating to the Company's patents and trademarks.

The Life Sciences segment represented approximately 9% of Corning's sales for 2014.

## All Other

All other segments that do not meet the quantitative threshold for separate reporting have been grouped as "All Other." This group is primarily comprised of the results of Corning Precision Materials' non-LCD business and new product lines and development projects such as advanced flow reactors and adjacency businesses in pursuit of thin, strong glass. This segment also includes certain corporate investments such as Eurokera and Keraglass equity affiliates, which manufacture smooth cooktop glass/ceramic products.

The All Other segment represented less than 1% of Corning's sales for 2014.

Additional explanation regarding Corning and its five reportable segments is presented in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 20 (Reportable Segments) to the Consolidated Financial Statements.

## Corporate Investments

Corning and The Dow Chemical Company (“Dow Chemical”) each own half of Dow Corning Corporation (“Dow Corning”), an equity company headquartered in Michigan that manufactures silicone products worldwide. Dow Corning is a leader in silicon-based technology and innovation, offering more than 7,000 products and services. Dow Corning is the majority-owner of Hemlock Semiconductor Group (“Hemlock”), a market leader in the production of high purity polycrystalline silicon for the semiconductor and solar energy industries. Dow Corning’s sales were \$6,221 million in 2014. Additional discussion about Dow Corning appears in the Legal Proceedings section. Dow Corning’s financial statements are attached in Item 15, Exhibits and Financial Statement Schedules.

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Corning and PPG Industries, Inc. each own half of Pittsburgh Corning Corporation (“PCC”), an equity company in Pennsylvania that manufactures glass products for architectural and industrial uses. PCC filed for Chapter 11 bankruptcy reorganization in April 2000. Corning also owns half of Pittsburgh Corning Europe N.V. (“PCE”), a Belgian corporation that manufactures glass products for industrial uses primarily in Europe. Additional discussion about PCC and PCE appears in the Legal Proceedings section.

Additional information about corporate investments is presented in Note 7 (Investments) to the Consolidated Financial Statements.

### Competition

Corning competes across all of its product lines with many large and varied manufacturers, both domestic and foreign. Some of these competitors are larger than Corning, and some have broader product lines. Corning strives to sustain and improve its market position through technology and product innovation. For the future, Corning believes its competitive advantage lies in its commitment to research and development, and its commitment to quality. There is no assurance that Corning will be able to maintain or improve its market position or competitive advantage.

### Display Technologies Segment

We believe Corning is the largest worldwide producer of glass substrates for active matrix LCD displays. The environment for LCD glass substrate products is very competitive and Corning believes it has sustained its competitive advantages by investing in new products, providing a consistent and reliable supply, and using its proprietary fusion manufacturing process. This process allows us to deliver glass that is larger, thinner and lighter, with exceptional surface quality and without heavy metals. Asahi Glass Co. Ltd. and Nippon Electric Glass Co. Ltd. are Corning’s principal competitors in display glass substrates.

### Optical Communications Segment

Competition within the communications equipment industry is intense among several significant companies. Corning is a leading competitor in the segment’s principal product groups, which include carrier network and enterprise network. The competitive landscape includes industry consolidation, price pressure and competition for the innovation of new products. These competitive conditions are likely to persist. Corning believes its large scale manufacturing experience, fiber process, technology leadership and intellectual property yield cost advantages relative to several of its competitors.

The primary competing producers of the Optical Communications segment are TE Connectivity Ltd. and Prysmian Group.

### Environmental Technologies Segment

For worldwide automotive ceramic substrate products, Corning has a major market position that has remained relatively stable over the past year. Corning has also established a strong presence in the heavy duty and light duty diesel vehicle market and believes its competitive advantage in automotive ceramic substrate products for catalytic converters and diesel filter products for exhaust systems is based upon global presence, customer service, engineering design services and product innovation. Corning’s Environmental Technologies products face principal competition from NGK Insulators, Ltd. and Ividen Co. Ltd.

### Specialty Materials Segment

Corning is one of very few manufacturers with deep capabilities in materials science, optical design, shaping, coating, finishing, metrology, and system assembly. Additionally, we are addressing emerging needs of the consumer electronics industry with the development of chemically strengthened glass. Corning Gorilla Glass is a thin-sheet glass that is better able to survive events that most commonly cause glass failure. Its advanced composition allows a deeper layer of chemical strengthening than is possible with most other chemically strengthened glasses, making it both durable and damage resistant. Our products and capabilities in this segment position the Company to meet the needs of a broad array of markets including display, semiconductor, aerospace/defense, astronomy, vision care, industrial/commercial, and telecommunications. For this segment, Schott, Asahi Glass Co. Ltd., Nippon Electric Glass Co. Ltd. and Heraeus are the main competitors.

#### Life Sciences Segment

Corning seeks to maintain a competitive advantage by emphasizing product quality, product availability, supply chain efficiency, a wide product line and superior product attributes. Our principle worldwide competitors include Thermo Fisher Scientific, Inc. and Perkin Elmer. Corning also faces increasing competition from large distributors that have pursued backward integration or introduced private label products.

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## Raw Materials

Corning's production of specialty glasses, ceramics, and related materials requires significant quantities of energy, uninterrupted power sources, certain precious metals, and various batch materials.

Although energy shortages have not been a problem recently, the cost of energy remains volatile. Corning has achieved flexibility through engineering changes to take advantage of low-cost energy sources in most significant processes. Specifically, many of Corning's principal manufacturing processes can be operated with natural gas, propane, oil or electricity, or a combination of these energy sources.

Availability of resources (ores, minerals, polymers, helium and processed chemicals) required in manufacturing operations, appears to be adequate. Corning's suppliers, from time to time, may experience capacity limitations in their own operations, or may eliminate certain product lines. Corning believes it has adequate programs to ensure a reliable supply of batch materials and precious metals. For many products, Corning has alternate glass compositions that would allow operations to continue without interruption in the event of specific materials shortages.

Certain key materials and proprietary equipment used in the manufacturing of products are currently sole-sourced or available only from a limited number of suppliers. Any future difficulty in obtaining sufficient and timely delivery of components could result in lost sales due to delays or reductions in product shipments, or reductions in Corning's gross margins.

## Patents and Trademarks

Inventions by members of Corning's research and engineering staff have been, and continue to be, important to the Company's growth. Patents have been granted on many of these inventions in the United States and other countries. Some of these patents have been licensed to other manufacturers, including companies in which Corning has equity investments. Many of our earlier patents have now expired, but Corning continues to seek and obtain patents protecting its innovations. In 2014, Corning was granted about 400 patents in the U.S. and over 750 patents in countries outside the U.S.

Each business segment possesses a patent portfolio that provides certain competitive advantages in protecting Corning's innovations. Corning has historically enforced, and will continue to enforce, its intellectual property rights. At the end of 2014, Corning and its wholly-owned subsidiaries owned over 8,000 unexpired patents in various countries of which over 3,300 were U.S. patents. Between 2015 and 2016, approximately 7% of these patents will expire, while at the same time Corning intends to seek patents protecting its newer innovations. Worldwide, Corning has about 7,000 patent applications in process, with about 2,200 in process in the U.S. Corning believes that its patent portfolio will continue to provide a competitive advantage in protecting Corning's innovation, although Corning's competitors in each of its businesses are actively seeking patent protection as well.

The Display Technologies segment has over 1,200 patents in various countries, of which about 300 are U.S. patents. No one patent is considered material to this business segment. Some of the important U.S.-issued patents in this segment include patents relating to glass compositions and methods for the use and manufacture of glass substrates for display applications. There is no group of important Display Technologies segment patents set to expire between 2015 and 2017.

The Optical Communications segment has over 3,100 patents in various countries, of which over 1,200 are U.S. patents. No one patent is considered material to this business segment. Some of the important U.S.-issued patents in this segment include: (i) patents relating to optical fiber products including low loss optical fiber, high data rate optical

fiber, and dispersion compensating fiber, and processes and equipment for manufacturing optical fiber, including methods for making optical fiber preforms and methods for drawing, cooling and winding optical fiber; (ii) patents relating to optical fiber ribbons and methods for making such ribbon, fiber optic cable designs and methods for installing optical fiber cable; (iii) patents relating to optical fiber connectors, termination and storage and associated methods of manufacture; and (iv) patents related to distributed communication systems. There is no group of important Optical Communications segment patents set to expire between 2015 and 2017.

The Environmental Technologies segment has over 600 patents in various countries, of which over 250 are U.S. patents. No one patent is considered material to this business segment. Some of the important U.S.-issued patents in this segment include patents relating to cellular ceramic honeycomb products, together with ceramic batch and binder system compositions, honeycomb extrusion and firing processes, and honeycomb extrusion dies and equipment for the high-volume, low-cost manufacture of such products. There is no group of important Environmental Technologies segment patents set to expire between 2015 and 2017.

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The Specialty Materials segment has over 700 patents in various countries, of which over 350 are U.S. patents. No one patent is considered material to this business segment. Some of the important U.S.-issued patents in this segment include patents relating to protective cover glass, ophthalmic glasses and polarizing dyes, and semiconductor/microlithography optics and blanks, metrology instrumentation and laser/precision optics, glass polarizers, specialty fiber, and refractories. There is no group of important Specialty Materials segment patents set to expire between 2015 and 2017.

The Life Sciences segment has over 650 patents in various countries, of which about 250 are U.S. patents. No one patent is considered material to this business segment. Some of the important U.S.-issued patents in this segment include patents relating to methods and apparatus for the manufacture and use of scientific laboratory equipment including multiwell plates and cell culture products, as well as equipment and processes for label independent drug discovery. There is no group of important Life Sciences segment patents set to expire between 2015 and 2017.

Products reported in All Other include development projects, new product lines, and other businesses or investments that do not meet the threshold for separate reporting.

Many of the Company's patents are used in operations or are licensed for use by others, and Corning is licensed to use patents owned by others. Corning has entered into cross-licensing arrangements with some major competitors, but the scope of such licenses has been limited to specific product areas or technologies.

Corning's principal trademarks include the following: Axygen, Corning, Celcor, ClearCurve, DuraTrap, Eagle XG, Epic, Evolant, Gosselin, Gorilla, HPFS, Lanscape, Pretium, Pyrex, Steuben, Falcon, SMF-28e, and Willow.

#### Protection of the Environment

Corning has a program to ensure that its facilities are in compliance with state, federal and foreign pollution-control regulations. This program has resulted in capital and operating expenditures each year. In order to maintain compliance with such regulations, capital expenditures for pollution control in continuing operations were approximately \$10 million in 2014 and are estimated to be \$13 million in 2015.

Corning's 2014 consolidated operating results were charged with approximately \$49 million for depreciation, maintenance, waste disposal and other operating expenses associated with pollution control. Corning believes that its compliance program will not place it at a competitive disadvantage.

#### Employees

At December 31, 2014, Corning had approximately 34,600 full-time employees, including approximately 11,500 employees in the United States. From time to time, Corning also retains consultants, independent contractors, temporary and part-time workers. Unions are certified as bargaining agents for approximately 24.1% of Corning's U.S. employees.

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Executive Officers of the Registrant

James P. Clappin President, Corning Glass Technologies

Mr. Clappin joined Corning in 1980 as a process engineer. He transitioned to GTE Corporation in 1983 when the Central Falls facility was sold and returned to Corning in 1988. He began working in the display business in 1994. Mr. Clappin relocated to Japan in 1996, as plant manager at Corning Display Technologies (CDT) Shizuoka facility. In 2002, he was appointed as general manager of CDT worldwide business. He served as president of CDT from September 2005 through July 2010. He was appointed president, Corning Glass Technologies, in 2010. Age 57.

Jeffrey W. Evenson Senior Vice President and Operations Chief of Staff

Dr. Evenson joined Corning in June 2011 and was elected to his current position at that time. He serves on the Management Committee and oversees a variety of strategic programs and growth initiatives. Prior to joining Corning, Dr. Evenson was a senior vice president with Sanford C. Bernstein, where he served as a senior analyst since 2004. Before that, Dr. Evenson was a partner at McKinsey & Company, where he led technology and market assessment for early-stage technologies. Age 49.

James B. Flaws Vice Chairman and Chief Financial Officer

Mr. Flaws joined Corning in 1973 and served in a variety of controller and business management positions. Mr. Flaws was elected assistant treasurer of Corning in 1993, vice president and controller in 1997, vice president of finance and treasurer in May 1997, senior vice president and chief financial officer in December 1997, executive vice president and chief financial officer in 1999 and to his current position in 2002. Mr. Flaws is a director of Dow Corning Corporation. Mr. Flaws has been a member of Corning's Board of Directors since 2000. Age 66.

Kirk P. Gregg Executive Vice President and Chief Administrative Officer

Mr. Gregg joined Corning in 1993 as director of Executive Compensation. He was named vice president of Executive Resources and Employee Benefits in 1994, senior vice president, Administration in December 1997 and to his current position in 2002. He is responsible for Human Resources, Information Technology, Procurement and Transportation, Aviation, Community Affairs, Government Affairs, Business Services and Corporate Security. Prior to joining Corning, Mr. Gregg was with General Dynamics Corporation as corporate director, Key Management Programs, and was responsible for executive compensation and benefits, executive development and recruiting. Age 55.

Clark S. Kinlin Executive Vice President, Corning Optical Communications

Mr. Kinlin joined Corning in 1981 in the Specialty Materials division. From 1985 to 1995 he worked in the Optical Fiber division. In 1995, he joined Corning Consumer Products (CCP). In 2000, Mr. Kinlin was named president, Corning International Corporation and, in 2003, he was appointed as general manager for Greater China. From April 2007 to March 2008, he was chief operating officer, Corning Cable Systems (now Corning Optical Communications) and was named president and chief executive officer in 2008. He was appointed executive vice president in 2012. Age 55.

Lawrence D. McRae Executive Vice President, Strategy and Corporate Development

Mr. McRae joined Corning in 1985 and served in various financial, sales and marketing positions. He was elected vice president Corporate Development in 2000, senior vice president Corporate Development in 2003, and senior vice president Strategy and Corporate Development in October 2005. He was elected to his present position in October 2010. Mr. McRae is on the board of directors of Dow Corning Corporation. Age 56.

David L. Morse Executive Vice President and Chief Technology Officer

Dr. Morse joined Corning in 1976 in glass research and worked as a composition scientist in developing and patenting several major products. He served in a variety of product and materials research and technology director roles and

was appointed division vice president and technology director for photonic technology groups beginning in March 1999. He became director of corporate research, science and technology in December 2001. He was elected vice president in January 2003, becoming senior vice president and director of corporate research in 2006. Dr. Morse was elected to his current position in May 2012. He is on the board of Dow Corning Corporation and a member of the National Academy of Engineering and the National Chemistry Board. Age 62.

Eric S. Musser Executive Vice President, Corning Technologies and International

Mr. Musser joined Corning in 1986 and served in a variety of manufacturing positions at fiber plants in Wilmington, N.C. and Melbourne, Australia, before becoming manufacturing strategist for the Optical Fiber business in 1996. Mr. Musser joined Corning Lasertron in 2000 and became president later that year. He was named director, manufacturing operations for Photonic Technologies in 2002. In 2003, he returned to Optical Fiber as division vice president, development and engineering and was named vice president and general manager in 2005. In 2007, he was appointed general manager of Corning Greater China and was named president of Corning International in 2012. Mr. Musser was appointed executive vice president in 2014. Age 55.

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**Christine M. Pambianchi** Senior Vice President, Human Resources

Ms. Pambianchi joined Corning in 2000 as division human resource manager, Corning Optical Fiber, and later was named director, Human Resources, Corning Optical Communications. She has led the Human Resources function since January 2008 when she was named vice president, Human Resources. Ms. Pambianchi was appointed to senior vice president, Human Resources, in 2010, and is responsible for leading Corning's global human resource function. Age 46.

**Lewis A. Steverson** Senior Vice President and General Counsel

Mr. Steverson joined Corning in June 2013 as Senior Vice President and General Counsel. Prior to joining Corning, Mr. Steverson served as senior vice president, general counsel, and secretary of Motorola Solutions, Inc. During his 18 years with Motorola, he held a variety of legal leadership roles across the company's numerous business units. Prior to Motorola, Mr. Steverson was in private practice at the law firm of Arnold & Porter. Age 51.

**R. Tony Tripeny** Senior Vice President, Corporate Controller and Principal Accounting Officer

Mr. Tripeny joined Corning in 1985 as the corporate accounting manager of Corning Cable Systems, and became the Keller, Texas facility's plant controller in 1989. In 1993, he was appointed equipment division controller of Corning Cable Systems and, in 1996 corporate controller. Mr. Tripeny was appointed chief financial officer of Corning Cable Systems in July 2000. In 2003, he took on the additional role of Telecommunications group controller. He was appointed division vice president, operations controller in August 2004, and vice president, corporate controller in October 2005. Mr. Tripeny was elected to his current position in April 2009. He is on the board of directors of Hardinge Inc. Age 55.

**Wendell P. Weeks** Chairman, Chief Executive Officer and President

Mr. Weeks joined Corning in 1983. He was named vice president and general manager of the Optical Fiber business in 1996, senior vice president in 1997, senior vice president of Opto-Electronics in 1998, executive vice president in 1999, and president, Corning Optical Communications in 2001. Mr. Weeks was named president and chief operating officer of Corning in 2002, president and chief executive officer in 2005 and chairman and chief executive officer on April 26, 2007. He added the title of president in December 2010. Mr. Weeks is a director of Merck & Co. Inc. Mr. Weeks has been a member of Corning's Board of Directors since 2000. Age 55.

#### Document Availability

A copy of Corning's 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available upon written request to Corporate Secretary, Corning Incorporated, Corning, NY 14831. The Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934 and other filings are available as soon as reasonably practicable after such material is electronically filed or furnished to the SEC, and can be accessed electronically free of charge, through the Investor Relations page on Corning's web site at [www.corning.com](http://www.corning.com). The information contained on the Company's website is not included in, or incorporated by reference into, this Annual Report on Form 10-K.

#### Other

Additional information in response to Item 1 is found in Note 20 (Reportable Segments) to the Consolidated Financial Statements and in Item 6 (Selected Financial Data).

#### Item 1A. Risk Factors

We operate in rapidly changing economic and technological environments that present numerous risks, many of which are driven by factors that we cannot control or predict. Our operations and financial results are subject to various risks

and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock or debt. The following discussion of “risk factors” identifies the most significant factors that may adversely affect our business, operations, financial position or future financial performance. This information should be read in conjunction with MD&A and the consolidated financial statements and related notes incorporated by reference into this report. The following discussion of risks is not all inclusive but is designed to highlight what we believe are important factors to consider, as these factors could cause our future results to differ from those in the forward-looking statements and from historical trends.

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As a global company, we face many risks which could adversely impact our ongoing operations and reported financial results

We operate in over 100 countries and derive a substantial portion of our revenues from, and have significant operations, outside of the United States. Our international operations include manufacturing, assembly, sales, customer support, and shared administrative service centers.

Compliance with laws and regulations increases our cost of doing business. These laws and regulations include U.S. laws and local laws which include data privacy requirements, employment and labor laws, tax laws, anti-competition regulations, prohibitions on payments to governmental officials, import and trade restrictions and export requirements. Non-compliance or violations could result in fines, criminal sanctions against us, our officers or our employees, and prohibitions on the conduct of our business. Such violations could result in prohibitions on our ability to offer our products and services in one or more countries and could also materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, our business and our operating results. Our success depends, in part, on our ability to anticipate and manage these risks.

We are also subject to a variety of other risks in managing a global organization, including those related to:

- General economic conditions in each country or region;
- Many complex regulatory requirements affecting international trade and investment, including anti-dumping laws, export controls, the Foreign Corrupt Practices Act and local laws prohibiting improper payments. Our operations may be adversely affected by changes in the substance or enforcement of these regulatory requirements, and by actual or alleged violations of them;
- Fluctuations in currency exchange rates, convertibility of currencies and restrictions involving the movement of funds between jurisdictions and countries;
  - Sovereign and political risks that may adversely affect Corning's profitability and assets;
  - Geographical concentration of our factories and operations and regional shifts in our customer base;
    - Periodic health epidemic concerns;
- Political unrest, confiscation or expropriation of our assets by foreign governments, terrorism and the potential for other hostilities;
- Difficulty in protecting intellectual property, sensitive commercial and operations data, and information technology systems generally;
  - Differing legal systems, including protection and treatment of intellectual property and patents;
    - Complex or unclear tax regimes;
  - Complex tariffs, trade duties and other trade barriers including anti-dumping duties;
    - Difficulty in collecting obligations owed to us such as accounts receivable;
    - Natural disasters such as floods, earthquakes, tsunamis and windstorms; and
      - Potential power loss or disruption affecting manufacturing.

Our sales could be negatively impacted by the actions of one or more key customers, or the circumstances to which they are subject, leading to the substantial reduction in orders for our products

In 2014, Corning's ten largest customers accounted for 48% of our sales.

In addition, a relatively small number of customers accounted for a high percentage of net sales in our reportable segments. For 2014, three customers of the Display Technologies segment accounted for 61% of total segment net sales when combined. In the Optical Communications segment, one customer accounted for 11% of segment net sales. In the Environmental Technologies segment, three customers accounted for 88% of total segment sales in

aggregate. In the Specialty Materials segment, three customers accounted for 51% of segment sales in 2014. In the Life Sciences segment, two customers accounted for 45% of segment sales in 2014. As a result of mergers and consolidations between customers, Corning's customer base could become more concentrated.

Our Optical Communications segment customers' purchases of our products are affected by their capital expansion plans, general market and economic uncertainty and regulatory changes, including broadband policy. Sales in the Optical Communications segment are expected to be impacted by the pace of fiber-to-the-premises deployments. Our sales will be dependent on planned targets for homes passed and connected. Changes in our customers' deployment plans could adversely affect future sales.

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In the Environmental Technologies segment, sales of our ceramic substrate and filter products for automotive and diesel emissions tend to fluctuate with vehicle production. Changes in laws and regulations for air quality and emission controls may also influence future sales. Sales in our Environmental Technologies segment are mainly to three catalyzers and emission system control manufacturers. Our customers sell these systems to automobile and diesel engine original equipment manufacturers. Sales in this segment may be affected by adverse developments in the global vehicle or freight hauling industries or by such factors as higher fuel prices that may affect vehicle sales or downturns in freight traffic.

Certain sales in our Specialty Materials segment track worldwide economic cycles and our customers' responses to those cycles. In addition, any positive trends in prior years in the sales of strengthened glass may not continue. We may experience losses relating to our inability to supply contracted quantities of this glass and processes planned to produce new versions of this glass may not be successful.

Sales in our Life Sciences segment are concentrated with two large distributors who are also competitors, and the balance is to a variety of pharmaceutical and biotechnology companies, hospitals, universities, and other research facilities. In 2014, our two largest distributors accounted for 45% of Life Sciences' segment sales. Changes in our distribution arrangements in this segment may adversely affect this segment's financial results.

Our operations and financial performance could be negatively impacted, if the markets for our products do not develop and expand as we anticipate

The markets for our products are characterized by rapidly changing technologies, evolving industry or regulatory standards and new product introductions. Our success is dependent on the successful introduction of new products, or upgrades of current products, and our ability to compete with new technologies. The following factors related to our products and markets, if they do not continue as in the recent past, could have an adverse impact on our operations:

- our ability to introduce advantaged products such as glass substrates for liquid crystal displays, optical fiber and cable and hardware and equipment, and environmental substrate and filter products at competitive prices;
- our ability to manufacture glass substrates and strengthened glass, to satisfy our customers' technical requirements and our contractual obligations; and
  - our ability to develop new products in response to government regulations and laws.

We face pricing pressures in each of our businesses that could adversely affect our financial performance

We face pricing pressure in each of our businesses as a result of intense competition, emerging technologies, or over-capacity. While we work consistently toward reducing our costs to offset pricing pressures, we may not be able to achieve proportionate reductions in costs or sustain our current rate of cost reduction. We anticipate pricing pressures will continue in the future in all our businesses.

Any of these items could cause our sales, profitability and cash flows to be significantly reduced.

We face risks due to foreign currency fluctuations

Because we have significant customers and operations outside the U.S., fluctuations in foreign currencies, especially the Japanese yen, New Taiwan dollar, Korean won, and Euro, will significantly impact our sales, profit and cash flows. Foreign exchange rates may make our products less competitive in countries where local currencies decline in value relative to the US dollar and Japanese yen. Sales in our Display Technologies segment, representing 40% of Corning's sales in 2014, are denominated in Japanese yen. Corning hedges significant translation, transaction and



balance sheet currency exposures and uses a variety of derivative instruments to reduce the impact of foreign currency fluctuations associated with certain monetary assets and liabilities as well as operating results including our net profits.

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A large portion of our sales, profit and cash flows are transacted in non-US dollar currencies and we expect that we will continue to realize gains or losses with respect to these exposures, net of gains or losses from our hedging programs. For example, we will experience foreign currency gains and losses in certain instances if it is not possible or cost effective to hedge our foreign currency exposures or should we elect not to hedge certain foreign currency exposures. Alternatively, we may experience gains or losses if the underlying exposure which we have hedged change (increases or decreases) and we are unable to reverse, unwind, or terminate the hedges concurrent with the change in the underlying notional exposure. The objective of our hedging activities is to mitigate the risk associated with foreign currency exposures. We are also exposed to potential losses in the event of non-performance by our counterparties to these derivative contracts. However, we minimize this risk by maintaining a diverse group of highly-rated major international financial institutions with which we have other financial relationships as our counterparties. We do not expect to record any losses as a result of such counterparty default. Neither we nor our counterparties are required to post collateral for these financial instruments. Our ultimate realized loss or gain with respect to currency fluctuations will generally depend on the size and type of cross-currency exposures that we enter into, the currency exchange rates associated with these exposures and changes in those rates, whether we have entered into foreign currency forward contracts to offset these exposures and other factors. All of these factors could materially impact our results of operations, anticipated future results, financial position and cash flows, the timing of which is variable and generally outside of our control.

If the financial condition of our customers declines, our credit risks could increase

Although we have a rigorous process to administer credit and believe our bad debt reserve is adequate, we have experienced, and in the future may experience, losses as a result of our inability to collect our accounts receivable. If our customers or our indirect customers fail to meet their payment obligations for our products, we could experience reduced cash flows and losses in excess of amounts reserved. Many customers of our Display Technologies and Specialty Materials segments are thinly capitalized and/or unprofitable. In our Optical Communications segment, certain large infrastructure projects are subject to governmental funding, which, if terminated, could adversely impact the financial strength of our customers. These factors may result in an inability to collect receivables or a possible loss in business.

The success of our business depends on our ability to develop and produce advantaged products that meet our customers' needs

Our business relies on continued global demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to our customers, original equipment manufacturers and distributors. This is dependent on a number of factors, including our ability to manage and maintain key customer relationships, our ability to produce products that meet the quality, performance and price expectations of our customers. The manufacturing of our products involves complex and precise processes. In some cases, existing manufacturing may be insufficient to achieve the requirements of our customers. We will need to develop new manufacturing processes and techniques to maintain profitable operations. While we continue to fund projects to improve our manufacturing techniques and processes and lower our costs, we may not achieve satisfactory manufacturing costs that will fully enable us to meet our profitability targets.

In addition, our continued success in selling products that appeal to our customers is dependent on our ability to innovate, with respect to both products and operations, and on the availability and effectiveness of legal protection for our innovations. Failure to continue to deliver quality and competitive products to the marketplace, to adequately protect our intellectual property rights, to supply products that meet applicable regulatory requirements or to predict market demands for, or gain market acceptance of, our products, could have a negative impact on our business, results of operations and financial condition.

Our future financial performance depends on our ability to purchase a sufficient amount of materials, precious metals, parts, and manufacturing equipment to meet the demands of our customers

Our ability to meet customer demand depends, in part, on our ability to obtain timely and adequate delivery of materials, precious metals, parts and components from our suppliers. We may experience shortages that could adversely affect our operations. Although we work closely with our suppliers to avoid shortages, there can be no assurances that we will not encounter problems in the future. Furthermore, certain manufacturing equipment, raw materials or components are available only from a single source or limited sources. We may not be able to find alternate sources in a timely manner. A reduction, interruption or delay of supply, or a significant increase in the price for supplies, such as manufacturing equipment, precious metals, raw materials or energy, could have a material adverse effect on our businesses.

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If our products, including materials purchased from our suppliers, experience performance issues, our business will suffer

Our business depends on the production of products of consistently high quality. Our products, components and materials purchased from our suppliers, are typically tested for quality. These testing procedures are limited to evaluating our products under likely and foreseeable failure scenarios. For various reasons, our products, including materials purchased from our suppliers, may fail to perform as a customer expected. In some cases, product redesigns or additional expense may be required to address such issues. A significant or systemic quality issue could result in customer relations problems, lost sales, reduced volumes, product recalls and financial damages and penalties.

We have incurred, and may in the future incur, goodwill and other intangible asset impairment charges

At December 31, 2014, Corning had goodwill and other intangible assets of \$1,647 million. While we believe the estimates and judgments about future cash flows used in the goodwill impairment tests are reasonable, we cannot provide assurance that future impairment charges will not be required if the expected cash flow estimates as projected by management do not occur, especially if an economic recession occurs and continues for a lengthy period or becomes severe, or if acquisitions and investments made by the Company fail to achieve expected returns.

We operate in a highly competitive environment

We operate in a highly competitive environment, and our outlook depends on the company's share of industry sales based on our ability to compete with others in the marketplace. The Company competes on the basis of product attributes, customer service, quality and price. There can be no assurance that our products will be able to compete successfully with other companies' products. Our share of industry sales could be reduced due to aggressive pricing or product strategies pursued by competitors, unanticipated product or manufacturing difficulties, product performance failures, our failure to price our products competitively, our failure to produce our products at a competitive cost or unexpected, emerging technologies or products. We expect that we will face continuous competition from existing competitors, low cost manufacturers and new entrants. We believe we must invest in research and development, engineering, manufacturing and marketing capabilities, and continue to improve customer service in order to remain competitive. We cannot provide assurance that we will be able to maintain or improve our competitive position.

We may need to change our pricing models to compete successfully

We face intense competition in all of our businesses, particularly LCD glass, and general economic and business conditions can put pressure on us to change our prices. If our competitors offer significant discounts on certain products or develop products that the marketplace considers more valuable, we may need to lower prices or offer other favorable terms in order to retain our customers and market positions. Any such changes may reduce our profitability and cash flow. Any broad-based change to our prices and pricing policies could cause our revenues to decline or be delayed as we implement and our customers adjust to the new pricing policies. If we do not adapt our pricing models to reflect changes in customer use of our products or changes in customer demand, our revenues could decrease.

LCD glass generates a significant amount of the Company's profits and cash flow, and any events that adversely affect the market for LCD glass substrates could have a material and negative impact on our financial results

Corning's ability to generate profits and operating cash flow depends largely upon the level of profitability of our LCD glass business. As a result, any event that adversely affects our Display business could have a significant impact on our consolidated financial results. These events could include loss of patent protection, increased costs associated with manufacturing, and increased competition from the introduction of new, and more desirable products. If any of

these events had a material adverse effect on the sales of our LCD glass, such an event could result in material charges and a significant reduction in profitability.

Additionally, emerging material technologies could replace our glass substrates for certain applications, including display glass, cover glass and others, resulting in a decline in demand for our products. Existing or new production capacity for glass substrates may exceed the demand for them. Technologies for displays, cover glass and other applications in competition with our glass may reduce or eliminate the need for our glass substrates. New process technologies developed by our competitors may also place us at a cost or quality disadvantage. Our own process technologies may be acquired or used unlawfully by others, enabling them to compete with us. Our inability to manufacture glass substrates to the specifications required by our customers may result in loss of revenue, margins and profits or liabilities for failure to supply. A scarcity of resources, limitations on technology, personnel or other factors resulting in a failure to produce commercial quantities of glass substrates could have adverse financial consequences to us.

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Changes in our effective tax rate or tax liability may have an adverse effect on our results of operations

Our effective tax rate could be adversely impacted by several factors, including:

- changes in the relative amounts of income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
  - changes in tax treaties and regulations or the interpretation of them;
- changes to our assessments about the realizability of our deferred tax assets that are based on estimates of our future results, the prudence and feasibility of possible tax planning strategies, and the economic environments in which we do business;
  - the outcome of current and future tax audits, examinations, or administrative appeals;
  - changes in generally accepted accounting principles that affect the accounting for taxes; and
  - limitations or adverse findings regarding our ability to do business in some jurisdictions.

We may have additional tax liabilities

We are subject to income taxes in the U.S. and many foreign jurisdictions and are commonly audited by various tax authorities. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Significant judgment is required in determining our worldwide provision for income taxes. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on our financial statements in the period or periods for which that determination is made.

A significant amount of our net profits and cash flows are generated from outside the U.S., and certain repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates for the company. In addition, there have been proposals to change U.S. tax laws that could significantly impact how U.S. global corporations are taxed on foreign earnings. Although we cannot predict whether or in what form proposed legislation may pass, if enacted certain anti-deferral proposals could have a material adverse impact on our tax expense and cash flow.

Our business depends on our ability to attract and retain talented employees

The loss of the services of any member of our senior management team or key research and development or engineering personnel without adequate replacement, or the inability to attract new qualified personnel, could have a material adverse effect on our operations and financial performance.

We are subject to strict environmental regulations and regulatory changes that could result in fines or restrictions that interrupt our operations

Some of our manufacturing processes generate chemical waste, waste water, other industrial waste or greenhouse gases, and we are subject to numerous laws and regulations relating to the use, storage, discharge and disposal of such substances. We have installed anti-pollution equipment for the treatment of chemical waste and waste water at our facilities. We have taken steps to control the amount of greenhouse gases created by our manufacturing operations. However, we cannot provide assurance that environmental claims will not be brought against us or that government regulators will not take steps toward adopting more stringent environmental standards.

Any failure on our part to comply with any present or future environmental regulations could result in the assessment of damages or imposition of fines against us, or the suspension/cessation of production or operations. In addition,

environmental regulations could require us to acquire costly equipment, incur other significant compliance expenses or limit or restrict production or operations and thus materially and negatively affect our financial condition and results of operations.

Changes in regulations and the regulatory environment in the U.S. and other countries, such as those resulting from the regulation and impact of global warming and CO2 abatement, may affect our businesses and their results in adverse ways by, among other things, substantially increasing manufacturing costs, limiting availability of scarce resources, especially energy, or requiring limitations on production and sale of our products or those of our customers.

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We may experience difficulties in enforcing our intellectual property rights and we may be subject to claims of infringement of the intellectual property rights of others

We rely on patent and trade secret laws, copyright, trademark, confidentiality procedures, controls and contractual commitments to protect our intellectual property rights. Despite our efforts, these protections may be limited and we may encounter difficulties in protecting our intellectual property rights or obtaining rights to additional intellectual property necessary to permit us to continue or expand our businesses. We cannot provide assurance that the patents that we hold or may obtain will provide meaningful protection against our competitors. Changes in or enforcement of laws concerning intellectual property, worldwide, may affect our ability to prevent or address the misappropriation of, or the unauthorized use of, our intellectual property. Litigation may be necessary to enforce our intellectual property rights. Litigation is inherently uncertain and outcomes are often unpredictable. If we cannot protect our intellectual property rights against unauthorized copying or use, or other misappropriation, we may not remain competitive.

The intellectual property rights of others could inhibit our ability to introduce new products. Other companies hold patents on technologies used in our industries and are aggressively seeking to expand, enforce and license their patent portfolios. We periodically receive notices from, or have lawsuits filed against us by third parties claiming infringement, misappropriation or other misuse of their intellectual property rights and/or breach of our agreements with them. These third parties often include entities that do not have the capabilities to design, manufacture, or distribute products or that acquire intellectual property like patents for the sole purpose of monetizing their acquired intellectual property through asserting claims of infringement and misuse. Such claims of infringement or misappropriation may result in loss of revenue, substantial costs, or lead to monetary damages or injunctive relief against us.

Current or future litigation or regulatory investigations may harm our financial condition or results of operations

As described in Legal Proceedings in this Form 10-K, we are engaged in litigation and regulatory matters. Litigation and regulatory proceedings may be uncertain, and adverse rulings could occur, resulting in significant liabilities, penalties or damages. Such current or future substantial legal liabilities or regulatory actions could have a material adverse effect on our business, financial condition, cash flows and reputation.

We may not capture significant revenues from our current research and development efforts for several years, if at all

Developing our products through research and development is expensive and the investment often involves a long return on investment cycle. We have made and expect to continue to make significant investments in research and development and related product opportunities. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development that could adversely affect our operating results if not offset by increases in our gross margin. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position.

Business disruptions could affect our operating results

A significant portion of our manufacturing, research and development activities and certain other critical business operations are concentrated in a few geographic areas. A major earthquake, fire or other catastrophic event that results in the destruction or disruption of any of our critical facilities could severely affect our ability to conduct normal business operations and, as a result, our future financial results could be materially and adversely affected.

Additionally, a significant amount of the specialized manufacturing capacity for our Display Technologies segment is concentrated in three overseas countries and it is reasonably possible that the operations of one or more such facilities



could be disrupted. Due to the specialized nature of the assets and the customers' locations, it may not be possible to find replacement capacity quickly or substitute production from facilities in other countries. Accordingly, loss of these facilities could produce a near-term severe impact on our Display business and the Company as a whole.

We face risks through equity affiliates that we do not control

Corning's net income includes equity earnings from affiliated companies. For the year ended December 31, 2014, we recognized \$266 million of equity earnings, of which approximately 95% came from Dow Corning (which makes silicone and high purity polycrystalline products).

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Our equity investments may not continue to perform at the same levels as in recent years. Dow Corning emerged from Chapter 11 bankruptcy in 2004 and has certain obligations under its Plan of Reorganization to resolve and fund claims of its creditors and personal injury claimants. Dow Corning may incur further bankruptcy charges in the future, which may adversely affect its operations or assets. Dow Corning also could be adversely impacted by diminished performance at their consolidated subsidiary, Hemlock Semiconductor Group. In addition, we rely on the internal controls and financial reporting controls of these entities and their failure to maintain effectiveness or comply with applicable standards may adversely affect us.

We may not have adequate insurance coverage for claims against us

We face the risk of loss resulting from product liability, asbestos, securities, fiduciary liability, intellectual property, antitrust, contractual, warranty, environmental, fraud and other lawsuits, whether or not such claims are valid. In addition, our product liability, fiduciary, directors and officers, property policies including business interruption, natural catastrophe and comprehensive general liability insurance may not be adequate to cover such claims or may not be available to the extent we expect in the future. A successful claim that exceeds or is not covered by our policies could require us to make substantial unplanned payments. Some of the carriers in our historical primary and excess insurance programs are in liquidation and may not be able to respond if we should have claims reaching their policies. The financial health of other insurers may deteriorate. Several of our insurance carriers are litigating with us the extent, if any, of their obligation to provide insurance coverage for asbestos liabilities asserted against us. The results of that litigation may adversely affect our insurance coverage for those risks. In addition, we may not be able to obtain adequate insurance coverage for certain types of risk such as political risks, terrorism or war.

Our global operations are subject to extensive trade and anti-corruption laws and regulations

Due to the international scope of our operations, we are subject to a complex system of import- and export-related laws and regulations, including U.S. regulations issued by Customs and Border Protection, the Bureau of Industry and Security, the Office of Antiboycott Compliance, the Directorate of Defense Trade Controls and the Office of Foreign Assets Control, as well as the counterparts of these agencies in other countries. Any alleged or actual violations may subject us to government scrutiny, investigation and civil and criminal penalties, and may limit our ability to import or export our products or to provide services outside the United States. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing laws might be administered or interpreted.

In addition, the U.S. Foreign Corrupt Practices Act and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence foreign government officials for the purpose of obtaining or retaining business, or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws. Our continued operation and expansion outside the United States, including in developing countries, could increase the risk of alleged violations. Violations of these laws may result in severe criminal or civil sanctions, could disrupt our business, and result in an adverse effect on our reputation, business and results of operations or financial condition.

Moreover, several of our related partners are domiciled in areas of the world with laws, rules and business practices that differ from those in the United States. Although we strive to select equity partners and affiliates who share our values and understand our reporting requirements as a U.S.-domiciled company and to ensure that an appropriate business culture exists within these ventures to minimize and mitigate our risk, we nonetheless face the reputational and legal risk that our equity partners and affiliates may violate applicable laws, rules and business practices.

Acquisitions, equity investments and strategic alliances may have an adverse effect on our business

We expect to continue making acquisitions and entering into equity investments and strategic alliances as part of our business strategy. These transactions involve significant challenges and risks including that a transaction may not advance our business strategy, that we do not realize a satisfactory return on our investment, or that we experience difficulty integrating new employees, business systems, and technology, or diversion of management's attention from our other businesses. It may take longer than expected to realize the full benefits, such as increased revenue and cash flow, enhanced efficiencies, or market share, or those benefits may ultimately be smaller than anticipated, or may not be realized. These events could harm our operating results or financial condition.

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Improper disclosure of personal data could result in liability and harm our reputation

We store and process personally-identifiable information of our employees and, in some case, our customers. At the same time, the continued occurrence of high-profile data breaches provides evidence of the increasingly hostile information security environment. This environment demands that we continuously improve our design and coordination of security controls across our business groups and geographies. Despite these efforts, it is possible our security controls over personal data, our training of employees and vendors on data security, and other practices we follow may not prevent the improper disclosure of personally identifiable information. Improper disclosure of this information could harm our reputation or subject us to liability under laws that protect personal data, resulting in increased costs or loss of revenue.

Significant macroeconomic events, changes in regulations, or a crisis in the financial markets could limit our access to capital

We utilize credit in both the capital markets and from banks to facilitate company borrowings, hedging transactions, leases and other financial transactions. We maintain a \$2 billion revolving credit agreement to fund potential liquidity needs and to backstop certain transactions. An adverse macroeconomic event or changes in bank regulations could limit our ability to gain access to credit or to renew the revolving credit agreement upon expiration. Additionally, a financial markets crisis may limit our ability to access liquidity.

Adverse economic conditions may adversely affect our cash investments

We maintain an investment portfolio of various types of securities with varying maturities and credit quality. These investments are subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by unusual events that have affected global financial markets. We also make significant investments in U.S. government securities, either directly, or through investment in money market funds. If global credit and equity markets experience prolonged periods of decline, or if the U.S. defaults on its debt obligations or its debt is downgraded, our investment portfolio may be adversely impacted and we could determine that more of our investments have experienced an other-than-temporary decline in fair value, requiring impairment charges that could adversely impact our financial results.

Information technology dependency and security vulnerabilities could lead to reduced revenue, liability claims, or competitive harm

The Company is increasingly dependent on sophisticated information technology and infrastructure. Any significant breakdown, intrusion, interruption or corruption of these systems or data breaches could have a material adverse effect on our business. Like other global companies, we have, from time to time, experienced incidents related to our information technology (“IT”) systems, and expect that such incidents will continue, including malware and computer virus attacks, unauthorized access, systems failures and disruptions. We have measures and defenses in place against unauthorized access, but we may not be able to prevent, immediately detect, or remediate such events.

We use electronic IT in our manufacturing processes and operations and other aspects of our business. Despite our implementation of security measures, our IT systems are vulnerable to disruptions from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. A material breach in the security of our IT systems could include the theft of our intellectual property or trade secrets. Such disruptions or security breaches could result in the theft, unauthorized use or publication of our intellectual property and/or confidential business information, harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives, or otherwise adversely affect our business.

Additionally, utilities and other operators of critical energy infrastructure that serve our facilities face heightened security risks, including cyber-attack. In the event of such an attack, disruption in service from our utility providers could disrupt our manufacturing operations which rely on a continuous source of power (electrical, gas, etc.).

International trade policies may impact demand for our products and our competitive position

Government policies on international trade and investment such as import quotas, capital controls or tariffs, whether adopted by individual governments or addressed by regional trade blocs, can affect the demand for our products and services, impact the competitive position of our products or prevent us (including our equity affiliates/joint ventures) from being able to sell products in certain countries. The implementation of more restrictive trade policies, such as higher tariffs or new barriers to entry, in countries in which we sell large quantities of products and services could negatively impact our business, results of operations and financial condition. For example, a government's adoption of "buy national" policies or retaliation by another government against such policies could have a negative impact on our results of operations. These policies also affect our equity companies.

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## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

We operate approximately 90 manufacturing plants and processing facilities in 17 countries, of which approximately 34% are located in the U.S. We own 71% of our executive and corporate buildings, which are mainly located in and around Corning, New York. We also own approximately 94% of our research and development facilities and the majority of our manufacturing facilities. We own approximately 71% of our sales and administrative facilities. The remaining facilities are leased.

For the years ended 2014, 2013 and 2012 we invested a total of \$3.9 billion, primarily in facilities outside of the U.S. in our Display Technologies segment. Of the \$1.1 billion spent in 2014, over \$650 million were for facilities outside the U.S.

Manufacturing, sales and administrative, and research and development facilities have an aggregate floor space of approximately 33.4 million square feet. Distribution of this total area follows:

| (million square feet)    | Total | Domestic | Foreign |
|--------------------------|-------|----------|---------|
| Manufacturing            | 26.7  | 7.6      | 19.1    |
| Sales and administrative | 2.5   | 2.1      | 0.4     |
| Research and development | 2.1   | 1.9      | 0.2     |
| Warehouse                | 2.1   | 1.6      | 0.5     |
| Total                    | 33.4  | 13.2     | 20.2    |

Total assets and capital expenditures by operating segment are included in Note 20 (Reportable Segments) to the Consolidated Financial Statements. Information concerning lease commitments is included in Note 14 (Commitments, Contingencies, and Guarantees) to the Consolidated Financial Statements.

## Item 3. Legal Proceedings

Dow Corning Corporation. Corning and The Dow Chemical Company (“Dow”) each own 50% of the common stock of Dow Corning Corporation (“Dow Corning”).

## Dow Corning Breast Implant Litigation

In May 1995, Dow Corning filed for bankruptcy protection to address pending and claimed liabilities arising from many thousands of breast implant product lawsuits. On June 1, 2004, Dow Corning emerged from Chapter 11 with a Plan of Reorganization (the “Plan”) which provided for the settlement or other resolution of implant claims. The Plan also includes releases for Corning and Dow as shareholders in exchange for contributions to the Plan.

Under the terms of the Plan, Dow Corning has established and is funding a Settlement Trust and a Litigation Facility to provide a means for tort claimants to settle or litigate their claims. Inclusive of insurance, Dow Corning has paid approximately \$1.8 billion to the Settlement Trust. As of December 31, 2014, Dow Corning had recorded a reserve for breast implant litigation of \$400 million. See Note 7 (Investments) for additional detail.

Other Dow Corning Claims Arising From Bankruptcy Proceedings

As a separate matter arising from the bankruptcy proceedings, Dow Corning is defending claims asserted by a number of commercial creditors who claim additional interest at default rates and enforcement costs, during the period from May 1995 through June 2004. As of December 31, 2014, Dow Corning has estimated the liability to commercial creditors to be within the range of \$99 million to \$324 million. As Dow Corning management believes no single amount within the range appears to be a better estimate than any other amount within the range, Dow Corning has recorded the minimum liability within the range. Should Dow Corning not prevail in this matter, Corning's equity earnings would be reduced by its 50% share of the amount in excess of \$99 million, net of applicable tax benefits. There are a number of other claims in the bankruptcy proceedings against Dow Corning awaiting resolution by the U.S. District Court, and it is reasonably possible that Dow Corning may record bankruptcy-related charges in the future. The remaining tort claims against Dow Corning are expected to be channeled by the Plan into facilities established by the Plan or otherwise defended by the Litigation Facility.

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Pittsburgh Corning Corporation and Asbestos Litigation. Corning and PPG Industries, Inc. (“PPG”) each own 50% of the capital stock of Pittsburgh Corning Corporation (“PCC”). Over a period of more than two decades, PCC and several other defendants have been named in numerous lawsuits involving claims alleging personal injury from exposure to asbestos. On April 16, 2000, PCC filed for Chapter 11 reorganization in the U.S. Bankruptcy Court for the Western District of Pennsylvania. At the time PCC filed for bankruptcy protection, there were approximately 11,800 claims pending against Corning in state court lawsuits alleging various theories of liability based on exposure to PCC’s asbestos products and typically requesting monetary damages in excess of one million dollars per claim. Corning has defended those claims on the basis of the separate corporate status of PCC and the absence of any facts supporting claims of direct liability arising from PCC’s asbestos products.

#### PCC Plan of Reorganization

Corning, with other relevant parties, has been involved in ongoing efforts to develop a Plan of Reorganization that would resolve the concerns and objections of the relevant courts and parties. On November 12, 2013, the Bankruptcy Court issued a decision finally confirming an Amended PCC Plan of Reorganization (the “Amended PCC Plan” or the “Plan”). On September 30, 2014, the United States District Court for the Western District of Pennsylvania (the “District Court”) affirmed the Bankruptcy Court’s decision confirming the Amended PCC Plan. On October 30, 2014, one of the objectors to the Plan appealed the District Court’s affirmation of the Plan to the United States Court of Appeals for the Third Circuit (the “Third Circuit Court of Appeals”), and that appeal is currently being scheduled for briefing. It will likely take many months for the Third Circuit Court of Appeals to render its decision.

Under the Plan as affirmed by the Bankruptcy Court and affirmed by the District Court, Corning is required to contribute its equity interests in PCC and Pittsburgh Corning Europe N.V. (“PCE”), a Belgian corporation, and to contribute \$290 million in a fixed series of payments, recorded at present value. Corning has the option to use its shares rather than cash to make these payments, but the liability is fixed by dollar value and not the number of shares. The Plan requires Corning to make: (1) one payment of \$70 million one year from the date the Plan becomes effective and certain conditions are met; and (2) five additional payments of \$35 million, \$50 million, \$35 million, \$50 million, and \$50 million, respectively, on each of the five subsequent anniversaries of the first payment, the final payment of which is subject to reduction based on the application of credits under certain circumstances.

#### Non-PCC Asbestos Litigation

In addition to the claims against Corning related to its ownership interest in PCC, Corning is also the defendant in approximately 9,700 other cases (approximately 37,300 claims) alleging injuries from asbestos related to its Corhart business and similar amounts of monetary damages per case. When PCC filed for bankruptcy protection, the Court granted a preliminary injunction to suspend all asbestos cases against PCC, PPG and Corning – including these non-PCC asbestos cases (the “stay”). The stay remains in place as of the date of this filing. Under the Bankruptcy Court’s order confirming the Amended PCC Plan, the stay will remain in place until the Amended PCC Plan is finally affirmed by the District Court and the Third Circuit Court of Appeals. These non-PCC asbestos cases have been covered by insurance without material impact to Corning to date. As of December 31, 2014, Corning had received for these cases approximately \$19 million in insurance payments related to those claims. If and when the Bankruptcy Court’s confirmation of the Amended PCC Plan is finally affirmed, these non-PCC asbestos claims would be allowed to proceed against Corning. Corning has recorded in its estimated asbestos litigation liability an additional \$150 million for these and any future non-PCC asbestos cases.

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### Total Estimated Liability for the Amended PCC Plan and the Non-PCC Asbestos Claims

The liability for the Amended PCC Plan and the non-PCC asbestos claims was estimated to be \$681 million at December 31, 2014, compared with an estimate of liability of \$690 million at December 31, 2013. The \$681 million liability is comprised of \$241 million of the fair value of PCE, \$290 million for the fixed series of payments, and \$150 million for the non-PCC asbestos litigation, all referenced in the preceding paragraphs. With respect to the PCE liability, at December 31, 2014 and 2013, the fair value of \$241 million and \$250 million of our interest in PCE significantly exceeded its carrying value of \$162 million and \$167 million, respectively. There have been no impairment indicators for our investment in PCE and we continue to recognize equity earnings of this affiliate. At the time Corning recorded this liability, it determined it lacked the ability to recover the carrying amount of its investment in PCC and its investment was other than temporarily impaired. As a result, we reduced our investment in PCC to zero. As the fair value in PCE is significantly higher than book value, management believes that the risk of an additional loss in an amount materially higher than the fair value of the liability is remote. With respect to the liability for other asbestos litigation, the liability for non-PCC claims was estimated based upon industry data for asbestos claims since Corning does not have recent claim history due to the injunction issued by the Bankruptcy Court. The estimated liability represents the undiscounted projection of claims and related legal fees over the next 20 years. The amount may need to be adjusted in future periods as more data becomes available; however, we cannot estimate any additional losses at this time. For the years ended December 31, 2014 and 2013, Corning recorded asbestos litigation income of \$9 million and expense of \$19 million, respectively. The entire obligation is classified as a non-current liability, as installment payments for the cash portion of the obligation are not planned to commence until more than 12 months after the Amended PCC Plan becomes effective and the PCE portion of the obligation will be fulfilled through the direct contribution of Corning's investment in PCE (currently recorded as a non-current other equity method investment).

### Non-PCC Asbestos Cases Insurance Litigation

Several of Corning's insurers have commenced litigation in state courts for a declaration of the rights and obligations of the parties under insurance policies, including rights that may be affected by the potential resolutions described above. Corning is vigorously contesting these cases, and management is unable to predict the outcome of the litigation.

**Environmental Litigation.** Corning has been named by the United States Environmental Protection Agency (the "EPA") under the Superfund Act or by state governments under similar state laws, as a potentially responsible party for 15 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by the EPA, are jointly and severally liable for the cost of cleanup unless the EPA agrees otherwise. It is Corning's policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned by Corning based on expert analysis and continual monitoring by both internal and external consultants. At December 31, 2014 and 2013, Corning had accrued approximately \$42.5 million (undiscounted) and \$15 million (undiscounted), respectively, for the estimated liability for environmental cleanup and related litigation. Based upon the information developed to date, management believes that the accrued reserve is a reasonable estimate of the Company's liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

**Chinese Anti-dumping Investigation Involving Single-Mode Optical Fiber Produced in India.** In August 2013, China's Ministry of Commerce ("MOFCOM") initiated an anti-dumping proceeding involving single-mode optical fiber produced in India and exported to China. On August 13, 2014, MOFCOM announced its final determination in this investigation assessing a 24.5% dumping margin on Corning's Indian affiliate, CTIPL's, exports to China. The dumping margins will remain in effect until August 13, 2019 unless lowered, eliminated, or increased on interim

review or extended by sunset review.

Chinese Anti-Dumping Investigation Involving Optical Fiber Preforms Produced in the United States. On March 19, 2014, China's MOFCOM initiated an anti-dumping investigation involving optical fiber preforms originating in the United States and Japan. The petition was submitted by China's domestic industry who is seeking to have anti-dumping duties in the range of 15-24% assessed against subject merchandise. On September 10, 2014, MOFCOM held an injury hearing, in which Corning participated and presented strong evidence of non-injury. We subsequently submitted a detailed non-injury brief and economic report further supporting the absence of threat of injury to the Chinese industry. We expect a final determination sometime in the first quarter of 2015.

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Trade Secret Misappropriation Suits Concerning LCD Glass Technology. On July 18, 2011, in China, Corning Incorporated filed suit in the Beijing Second Intermediate People's Court against Hebei Dongxu Investment Group Co., Ltd., which changed its name to Dongxu Group Co., Ltd. ("Dongxu") for misappropriation of certain trade secrets related to the fusion draw process for manufacturing glass substrates used in active matrix liquid crystal displays ("LCDs"). On July 18, 2011, in South Korea, Corning Incorporated and Samsung Corning Precision Materials filed suits in the Daejeon District Court against Dongxu, one of its officers, and two other named individuals, for related trade secret misappropriation. On November 15, 2013, these cases were settled with Dongxu taking a license to the misappropriated technology for a royalty, broken up into two payments. Dongxu made the first payment in December 2013, and the second payment in November 2014.

Department of Justice Grand Jury Subpoena. In March 2012, Corning received a grand jury subpoena issued in the United States District Court for the Eastern District of Michigan from the U.S. Department of Justice in connection with an investigation into conduct relating to possible antitrust law violations involving certain automotive products, including catalytic converters, diesel particulate filters, substrates and monoliths. The subpoena required Corning to produce to the Department of Justice certain documents from the period January 1999 to March 2012. In November 2012, Corning received another subpoena from the Department of Justice, with the same scope, but extending the time frame for the documents to be produced back to January 1, 1988. Corning's policy is to comply with all laws and regulations, including all antitrust and competition laws. Antitrust investigations can result in substantial liability for the Company. Currently, Corning cannot estimate the ultimate financial impact, if any, resulting from the investigation. Such potential impact, if an antitrust violation by Corning is found, could however, be material to the results of operations of Corning in a particular period.

#### Item 4. Mine Safety Disclosure

None.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

- (a) Corning Incorporated common stock is listed on the New York Stock Exchange. In addition, it is traded on the Boston, Midwest, Pacific and Philadelphia stock exchanges. Common stock options are traded on the Chicago Board Options Exchange. The ticker symbol for Corning Incorporated is "GLW."

The following table sets forth the high and low sales price of Corning's common stock as reported on the Composite Tape.

|             | First<br>quarter | Second<br>quarter | Third<br>quarter | Fourth<br>quarter |
|-------------|------------------|-------------------|------------------|-------------------|
| 2014        |                  |                   |                  |                   |
| Price range |                  |                   |                  |                   |
| High        | \$ 20.99         | \$ 22.20          | \$ 22.37         | \$ 23.52          |
| Low         | \$ 16.55         | \$ 20.17          | \$ 19.23         | \$ 17.03          |
| 2013        |                  |                   |                  |                   |
| Price range |                  |                   |                  |                   |
| High        | \$ 13.35         | \$ 16.43          | \$ 15.51         | \$ 18.07          |
| Low         | \$ 11.75         | \$ 12.64          | \$ 13.84         | \$ 13.82          |

As of December 31, 2014, there were approximately 17,819 record holders of common stock and approximately 501,928 beneficial shareholders.

On October 3, 2012, Corning's Board of Directors declared a 20% increase in the Company's quarterly common stock dividend, increasing Corning's quarterly dividend to \$0.09 per share of common stock. On April 24, 2013, Corning's Board of Directors declared an 11% increase in the Company's quarterly common stock dividend, increasing Corning's quarterly dividend to \$0.10 per share of common stock. And on December 3, 2014, Corning's Board of Directors declared a 20% increase in the Company's quarterly common stock dividend, increasing Corning's quarterly dividend to \$0.12 per share of common stock.

## Equity Compensation Plan Information

The following table shows the total number of outstanding options and shares available for other future issuances of options under our existing equity compensation plans as of December 31, 2014, including the 2010 Equity Plan for Non-Employee Directors and 2012 Long-Term Incentive Plan:

| Plan category  | A<br>Number of<br>securities to<br>be issued<br>upon exercise<br>of outstanding<br>options, warrants<br>and rights | B<br>Weighted-average<br>exercise price<br>of outstanding<br>options, warrants<br>and rights | C<br>Number of securities<br>remaining available for<br>future issuance under<br>equity compensation<br>plans (excluding<br>securities reflected<br>in column A) |
|--|--|--|--|
| Equity compensation plans approved by security holders (1) | 48,724,000   | \$18.94  | 75,235,046   |

Equity compensation plans not approved by  
security holders

|       |            |         |            |
|-------|------------|---------|------------|
|       | 0          | 0       | 0          |
| Total | 48,724,000 | \$18.94 | 75,235,046 |

(1) Shares indicated are total grants under the most recent shareholder approved plans as well as any shares remaining outstanding from any prior shareholder approved plans.

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## Performance Graph

The following graph illustrates the cumulative total shareholder return over the last five years of Corning's common stock, the S&P 500 and the S&P Communications Equipment Companies (in which Corning is currently included). The graph includes the capital weighted performance results of those companies in the communications equipment company classification that are also included in the S&P 500.

(b) Not applicable.

(c) The following table provides information about our purchases of our common stock during the fiscal fourth quarter of 2014:

## Issuer Purchases of Equity Securities

| Period                     | Number of shares purchased (1) | Average price paid per share (1) | Number of shares purchased as part of publicly announced plans or programs (2) | Approximate dollar value of shares that may yet be purchased under the plans or programs (2)(3) |
|----------------------------|--------------------------------|----------------------------------|--|---|
| October 1-31, 2014         | 4,374,592                      | \$18.33                          | 4,364,700  | \$102,845,099   |
| November 1-30, 2014        | 4,985,050                      | \$20.63                          | 4,984,411  | \$0   |
| December 1-31, 2014        | 29,601                         | \$21.21                          | 0  | \$1,500,000,000   |
| Total at December 31, 2014 | 9,389,243                      | \$19.56                          | 9,349,111  | \$1,500,000,000   |

- (1) This column reflects the following transactions during the fiscal fourth quarter of 2014: (i) the deemed surrender to us of 878 shares of common stock to satisfy tax withholding obligations in connection with the vesting of employee restricted stock units; (ii) the surrender to us of 39,254 shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees; and (iii) the purchase of 9,349,111 shares of common stock in conjunction with the repurchase program made effective concurrent with the closing of Corning's Acquisition of Samsung Corning Precision Materials on January 15, 2014.
- (2) On October 22, 2013, we announced authorization to repurchase up to \$2 billion of our common stock by December 31, 2015, through a repurchase program made effective on January 15, 2014. This program was finalized in the fourth quarter of 2014.
- (3) On December 3, 2014, Corning's Board of Directors authorized the repurchase of up to \$1.5 billion of our common stock between the date of announcement and December 31, 2016.

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## Item 6. Selected Financial Data (Unaudited)

(In millions, except per share amounts and number of employees)

|  | Years ended December 31, |           |           |           |           |
|--|--------------------------|-----------|-----------|-----------|-----------|
|  | 2014                     | 2013      | 2012      | 2011      | 2010      |
| <b>Results of operations</b>   |                          |           |           |           |           |
| Net sales  | \$ 9,715                 | \$ 7,819  | \$ 8,012  | \$ 7,890  | \$ 6,632  |
| Research, development and engineering expenses                         | \$ 815                   | \$ 710    | \$ 769    | \$ 668    | \$ 599    |
| Equity in earnings of affiliated companies                             | \$ 266                   | \$ 547    | \$ 810    | \$ 1,471  | \$ 1,958  |
| Net income attributable to Corning Incorporated                        | \$ 2,472                 | \$ 1,961  | \$ 1,636  | \$ 2,817  | \$ 3,574  |
| <b>Earnings per common share attributable to Corning Incorporated:</b> |                          |           |           |           |           |
| Basic  | \$ 1.82                  | \$ 1.35   | \$ 1.10   | \$ 1.80   | \$ 2.29   |
| Diluted  | \$ 1.73                  | \$ 1.34   | \$ 1.09   | \$ 1.78   | \$ 2.26   |
| <b>Cash dividends declared per common share</b>                        |                          |           |           |           |           |
|  | \$ 0.52                  | \$ 0.39   | \$ 0.32   | \$ 0.23   | \$ 0.20   |
| <b>Shares used in computing per share amounts:</b>                     |                          |           |           |           |           |
| Basic earnings per common share  | 1,305                    | 1,452     | 1,494     | 1,562     | 1,558     |
| Diluted earnings per common share                                      | 1,427                    | 1,462     | 1,506     | 1,583     | 1,581     |
| <b>Financial position</b>  |                          |           |           |           |           |
| Working capital  | \$ 7,914                 | \$ 7,145  | \$ 7,739  | \$ 6,580  | \$ 6,873  |
| Total assets   | \$ 30,063                | \$ 28,478 | \$ 29,375 | \$ 27,848 | \$ 25,833 |
| Long-term debt   | \$ 3,227                 | \$ 3,272  | \$ 3,382  | \$ 2,364  | \$ 2,262  |
| Total Corning Incorporated shareholders' equity                        | \$ 21,579                | \$ 21,162 | \$ 21,486 | \$ 21,078 | \$ 19,375 |
| <b>Selected data</b>   |                          |           |           |           |           |
| Capital expenditures   | \$ 1,076                 | \$ 1,019  | \$ 1,801  | \$ 2,432  | \$ 1,007  |
| Depreciation and amortization  | \$ 1,167                 | \$ 1,002  | \$ 997    | \$ 957    | \$ 854    |
| Number of employees  | 34,600                   | 30,400    | 28,700    | 28,800    | 26,200    |

Reference should be made to the Notes to the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

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## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Organization of Information

Management's Discussion and Analysis provides a historical and prospective narrative on the Company's financial condition and results of operations. This discussion includes the following sections:

- Overview
- Results of Operations
- Core Performance Measures
  - Reportable Segments
- Liquidity and Capital Resources
  - Environment
- Critical Accounting Estimates
  - New Accounting Standards
  - Forward-Looking Statements

### OVERVIEW

The impact of the Acquisition of the remaining equity interests in our affiliate Samsung Corning Precision Materials, now known as Corning Precision Materials, combined with strong business performance in the Environmental Technologies and Optical Communications segments, drove an increase in sales of 24% in the year ended December 31, 2014, when compared to the same period last year. Net income increased significantly in 2014, up 26%, driven by the net gain on our yen-denominated hedging program, the consolidation of Corning Precision Materials, the positive impact of the change in the contingent consideration fair value resulting from the Acquisition, an increase in equity earnings from Dow Corning and higher net income in the Environmental Technologies and Optical Communications segments. The increase was offset somewhat by price declines outpacing volume increases in the Display Technologies segment, the negative impact of the depreciation of the Japanese yen against the U.S. dollar, several tax-related items and the net loss on several Acquisition-related items.

Net sales in the year ended December 31, 2014 were \$9,715 million, compared to \$7,819 million in the year ended December 31, 2013. When compared to 2013, the change in net sales was driven by the following items:

- An increase of \$1.3 billion in the Display Technologies segment, driven by the consolidation of Corning Precision Materials, which increased sales by \$1.8 billion, and an increase in volume that was slightly more than 10% in percentage terms, offset somewhat by price declines in the mid-teens in percentage terms and the negative impact of the Japanese yen versus the U.S. dollar exchange rate in the amount of \$373 million;
- An increase in net sales in the Optical Communications segment in the amount of \$326 million, driven by an increase in sales of carrier network products in the amount of \$254 million, largely due to growth in North America and Europe, the \$53 million impact of a small acquisition and the consolidation of an investment due to a change in control which occurred at the end of the second quarter of 2013 and an increase of \$72 million in enterprise network products. These increases were offset slightly by a \$52 million decrease in optical fiber sales in China; and
- An increase of \$173 million in the Environmental Technologies segment, due mainly to an increase in demand for our heavy duty diesel products, driven by new governmental regulations in Europe and China and increased demand for Class 8 vehicles in North America.

For the year ended December 31, 2014, we generated net income of \$2.5 billion or \$1.73 per share compared to net income of \$2 billion or \$1.34 per share for 2013. When compared to last year, the increase in net income was due to the following items (amounts presented after tax):

- The positive net impact of our yen-denominated hedge programs, driven by the weakening of the Japanese yen in 2014, in the amount of \$560 million;
- The impact of the consolidation of Corning Precision Materials, as well as cost reductions and efficiencies gained through synergies;
- The change in the contingent consideration fair value resulting from the Acquisition in the amount of \$194 million;
- An increase of \$56 million in equity earnings from Dow Corning, driven by Corning's share of a gain in the amount of \$393 million from the reduction in the implant liability, favorable tax adjustments of \$46 million and an increase in business results in both the silicone and polysilicon segments, offset by Corning's share of a charge taken related to the abandonment of a polycrystalline silicon facility in the amount of \$465 million; and

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- A \$50 million increase in net income in the Environmental Technologies segment, driven by an increase in demand for our diesel and automotive products and improved manufacturing efficiency.

The increase in net income for the year ended December 31, 2014 was offset somewhat by the following items (amounts presented after-tax):

- The impact of several tax-related items in the amount of \$231 million, including changes in deferred tax valuation allowances of \$150 million, \$46 million of tax expense related to out-of-period transfer pricing adjustments and the absence of a tax benefit in the amount of \$54 million recorded in the first quarter of 2013 related to the impact of the American Taxpayer Relief Act enacted on January 3, 2013 retroactive to 2012;
  - The net impact of several Acquisition-related items in the amount of \$72 million;
- The negative impact from the Japanese yen versus the U.S. dollar exchange rate in the amount of \$210 million; and
- In the Display Technologies segment, price declines in the mid-teens in percentage terms outpacing an increase in volume slightly higher than 10%.

Corning remains committed to a strategy of growing through global innovation. This strategy has served us well. Our key priorities for 2014 were similar to those in prior years: protect our financial health and invest in the future. During 2014, we made the following progress on these priorities:

#### Protecting Financial Health

Our financial position remained sound and we delivered strong cash flows from operating activities. Significant items in 2014 included the following:

- We ended the year with \$6.1 billion of cash, cash equivalents and short-term investments, an increase from the December 31, 2013 balance of \$5.2 billion, well above our debt balance at December 31, 2014 of \$3.3 billion. The increase in cash was driven by the consolidation of Corning Precision Materials, the cash received from Samsung Display for the additional issuance of Preferred Stock in connection with the Acquisition and strong operating cash flow, offset by the cash paid for our share repurchases.
  - Our debt to capital ratio of 13% at December 31, 2014 was consistent with our ratio at December 31, 2013.
- Operating cash flow for the year was \$4.7 billion, an increase of \$1.9 billion when compared to December 31, 2013, driven by a dividend in the amount of approximately \$1.6 billion from Samsung Corning Precision Materials distributed subsequent to the Acquisition of the remaining equity interests of the affiliate.

#### Investing in our Future

Corning is one of the world's leading innovators in materials science. For more than 160 years, Corning has applied its unparalleled expertise in specialty glass, ceramics, and optical physics to develop products that have created new industries and transformed people's lives. Although our spending level for research, development and engineering decreased slightly from 9% of sales in 2013 to 8% of sales in 2014, we maintained our innovation strategy focused on growing our existing businesses, developing opportunities adjacent or closely related to our existing technical and manufacturing capabilities, and investing in long-range opportunities in each of our market segments. We continue to work on new products, including glass substrates for high performance displays and LCD applications, precision glass for advanced displays, emissions control products for cars, trucks, and off-road vehicles, products that accelerate drug discovery and manufacturing and the optical fiber, cable and hardware and equipment that enable fiber-to-the-premises, and next generation data centers. In addition, we are focusing on wireless solutions for diverse venue applications, such as distributed antenna systems, fiber-to-the cell site and fiber-to-the antenna. We have focused our research, development and engineering spending to support the advancement of new product attributes for

our Corning® Gorilla® Glass suite of products. We will continue to focus on adjacent glass opportunities which leverage existing materials or manufacturing processes, including Corning® Willow™ Glass, our ultra-slim flexible glass substrate for use in next-generation consumer electronic technologies.

Capital spending totaled \$1.1 billion in 2014, slightly above the amount spent in 2013. Spending in 2014 was driven primarily by the Display Technologies segment, and focused on finishing line optimization and tank rebuilds. We expect our 2015 capital expenditures to be approximately \$1.3 billion to \$1.4 billion. We anticipate approximately \$650 million will be allocated to our Display Technologies segment.

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## Corporate Outlook

We expect 2015 to produce another year of sales increases in our Optical Communications, Life Sciences, Specialty Materials and Environmental Technologies segments, and for the LCD retail glass market and Corning's glass volume to grow. We believe the overall LCD glass retail market in 2015 will increase in the high-single digits, driven by the combination of an increase in retail sales of LCD televisions and the demand for larger television screen sizes. We anticipate a rise in global demand for Corning's carrier network products, combined with growth of enterprise network products, will increase sales in our Optical Communications segment. We believe sales of Corning Gorilla Glass will improve in 2015, as we expect price declines to be moderate and volume to improve in line with the increase in the handheld market. And we expect another strong year of manufacturing process improvements and cost reductions, which, in combination with sales growth, will deliver overall earnings growth for Corning. We remain confident that our strategy to grow through global innovation, while preserving our financial stability, will enable our continued long-term success.

## RESULTS OF OPERATIONS

Selected highlights from our continuing operations follow (in millions):

|  | 2014    | 2013    | 2012    | % change  |           |
|--|---------|---------|---------|-----------|-----------|
|  |         |         |         | 14 vs. 13 | 13 vs. 12 |
| Net sales                                      | \$9,715 | \$7,819 | \$8,012 | 24        | (2)       |
| Gross margin                                   | \$4,052 | \$3,324 | \$3,319 | 22        | *         |
| (gross margin %)                               | 42%     | 43%     | 41%     |           |           |
| Selling, general and administrative expense    | \$1,211 | \$1,126 | \$1,205 | 8         | (7)       |
| (as a % of net sales)                          | 12%     | 14%     | 15%     |           |           |
| Research, development and engineering expenses | \$815   | \$710   | \$769   | 15        | (8)       |
| (as a % of net sales)                          | 8%      | 9%      | 10%     |           |           |
| Restructuring, impairment and other charges    | \$71    | \$67    | \$133   | 6         | (50)      |
| (as a % of net sales)                          | 1%      | 1%      | 2%      |           |           |
| Equity in earnings of affiliated companies     | \$266   | \$547   | \$810   | (51)      | (32)      |
| (as a % of net sales)                          | 3%      | 7%      | 10%     |           |           |
| Transaction-related gain, net                  | \$74    |         |         | *         |           |
| (as a % of net sales)                          | 1%      |         |         |           |           |
| Other income, net                              | \$1,394 | \$667   | \$83    | 109       | 704       |
| (as a % of net sales)                          | 14%     | 9%      | 1%      |           |           |
| Income before income taxes                     | \$3,568 | \$2,473 | \$1,975 | 44        | 25        |

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|  |           |         |         |     |    |
|--|-----------|---------|---------|-----|----|
| (as a % of net sales)                              | 37%       | 32%     | 25%     |     |    |
| Provision for income taxes                         | \$(1,096) | \$(512) | \$(339) | 114 | 51 |
| (as a % of net sales)                              | (11)%     | (7)%    | (4)%    |     |    |
| Net income attributable to<br>Corning Incorporated | \$2,472   | \$1,961 | \$1,636 | 26  | 20 |
| (as a % of net sales)                              | 25%       | 25%     | 20%     |     |    |

\* Percent change not meaningful.

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## Net Sales

Corning's net sales in the year ended December 31, 2014 improved in all of our segments, increasing by \$1,896 million to \$9,715 million, when compared to the same period in 2013, driven by the following events:

- Display Technologies increased by \$1.3 billion, due to the consolidation of Corning Precision Materials, which increased sales by \$1.8 billion, and an increase in volume that was slightly more than 10% in percentage terms, offset somewhat by price declines in the mid-teens and the negative impact of the Japanese yen versus the U.S. dollar exchange rate in the amount of \$373 million;
- Optical Communications increased by \$326 million, driven by an increase in sales of carrier network products in the amount of \$254 million, largely due to growth in North America and Europe, up \$113 million and \$46 million, respectively, the impact of a full year of sales from a small acquisition and the consolidation of an investment due to a change in control that occurred at the end of the second quarter of 2013, which added \$53 million, and an increase of \$72 million in enterprise network products. These increases were offset slightly by a \$52 million decrease in optical fiber sales in China;
- An increase of \$173 million in the Environmental Technologies segment, due mainly to an increase in demand for our heavy duty diesel products, driven by new governmental regulations in Europe and China, and increased demand for Class 8 vehicles in North America. Automotive substrate sales were also strong, increasing 9%, due to increased demand in Europe and China;
- Specialty Materials improved by \$35 million, driven by an increase in sales of advanced optics products. Corning Gorilla Glass sales remained consistent with the prior year, with volume increases offset by an unfavorable shift in product mix and price declines; and
- Life Science increased by \$11 million, driven by growth in North America and China, up \$12 million and \$5 million, respectively.

For the year ended December 31, 2013, net sales remained relatively consistent when compared to the year ended December 31, 2012, with higher sales in the Optical Communications and Life Sciences segments offset by declines in the Display Technologies, Environmental Technologies and Specialty Materials segments. The change in net sales was largely driven by the following:

- Optical Communications sales increased by \$196 million, driven by an increase in sales of our carrier products in the amount of \$163 million, largely due to the ramp-up of the fiber-to-the-premises initiative in Australia, which increased by \$28 million, an increase of \$23 million in sales of wireless products and higher sales of fiber and cable products in North America, China and Europe, up \$52 million, \$33 million and \$26 million, respectively. Also included in the increase in sales of carrier products is the impact of a small acquisition completed in the second quarter of 2013 and the consolidation of an investment due to a change in control, which added approximately \$53 million in 2013;
- Net sales increased by \$194 million in the Life Sciences segment, driven by the impact of the acquisition of the Discovery Labware business in the fourth quarter of 2012;
- Display Technologies segment sales were lower, driven by price declines in the mid-teens and the impact of the depreciation of the Japanese yen versus the U.S. dollar offsetting volume increases in the mid-twenties in percentage terms;
  - Environmental Technologies segment sales decreased, driven by a decline of 9% for diesel products;
- Net sales declined by \$176 million in the Specialty Materials segment, driven by a 17% decline in sales of Corning Gorilla Glass.

In 2014, 2013 and 2012, sales into international markets accounted for 77%, 74% and 77%, respectively, of total net sales.

Cost of Sales

The types of expenses included in the cost of sales line item are: raw materials consumption, including direct and indirect materials; salaries, wages and benefits; depreciation and amortization; production utilities; production-related purchasing; warehousing (including receiving and inspection); repairs and maintenance; inter-location inventory transfer costs; production and warehousing facility property insurance; rent for production facilities; and other production overhead.

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## Gross Margin

For 2014, gross margin dollars increased by \$728 million when compared to 2013, driven largely by the consolidation of Corning Precision Materials, combined with an increase of \$102 million in the Environmental Technologies segment from higher volume and improved manufacturing efficiencies. Gross margin as a percentage of net sales decreased when compared to the same period last year, due primarily to the impact of the depreciation of the Japanese yen versus the U.S. dollar in the amount of \$333 million, price declines in the mid-teens in percentage terms in our Display Technologies segment, higher pension expense of approximately \$50 million and the impact of inventory builds in 2013 in the Optical Communications and Specialty Materials segments that did not repeat in 2014.

For 2013, gross margin dollars and as a percentage of sales increased when compared to 2012, led by a decrease in pension expense in the amount of \$150 million driven by a 100 basis point increase in the discount rate used to value our U.S. pension liability and an increase of 6% in the Specialty Materials segment, resulting from improvements in manufacturing efficiency and cost reduction programs. The depreciation of the Japanese yen versus the U.S. dollar and price declines in the Display Technologies segment partially offset the increase.

## Selling, General, and Administrative Expenses

Selling, general, and administrative expenses for the year ended December 31, 2014 increased by \$85 million when compared to 2013. The increase was largely driven by the consolidation of Corning Precision Materials, which added \$90 million, an increase in pension expense of approximately \$27 million, an increase of \$38 million in share-based and performance-based compensation expenses and an increase of approximately \$90 million in acquisition-related costs, including \$72 million of post-combination compensation expense, offset somewhat by the positive impact of a contingent consideration fair value adjustment of \$249 million. As a percentage of net sales, selling, general and administrative expenses were 12%, considerably lower than the same period in 2013, largely due to the contingent consideration fair value adjustment more than offsetting the increase in Selling, general, and administrative expenses resulting from the Acquisition.

Selling, general, and administrative expenses for 2013 decreased by \$79 million when compared to 2012. This decrease was largely driven by a decrease in pension expense in the amount of \$76 million driven by a 100 basis point increase in the discount rate used to value our U.S. pension liability, cost control measures implemented in our segments and a decline in variable compensation in the amount of \$27 million, offset somewhat by an increase in costs in the Optical Communications, Specialty Materials and Life Sciences segments. As a percentage of net sales, these expenses decreased when compared to the same period last year.

The types of expenses included in the selling, general and administrative expenses line item are: salaries, wages and benefits; travel; professional fees; and depreciation and amortization, utilities, and rent for administrative facilities.

## Research, Development and Engineering Expenses

For the year ended December 31, 2014, research, development, and engineering expenses increased by \$105 million when compared to the same period last year, driven by the consolidation of Corning Precision Materials, which added \$69 million, an increase of approximately \$30 million in new business development spending and \$20 million of additional pension expense. We continue to focus on new product development in areas such as glass substrates for high performance displays in our Display Technologies segment, wireless solutions for diverse venue applications in the Optical Communications segment and advancement of new product attributes for our Corning Gorilla Glass suite of products in our Specialty Materials segment. As a percentage of net sales, research, development and engineering expenses declined slightly, from 9% in 2013 to 8% in 2014, reflecting cost control measures implemented in 2014.

For the year ended December 31, 2013, research, development, and engineering expenses decreased by \$59 million when compared to the same period last year, driven by a decrease in pension expense in the amount of \$47 million driven by a 100 basis point increase in the discount rate used to value our U.S. pension liability and declines in our Display Technologies and Environmental Technologies segments of \$19 million and \$11 million, respectively, offset slightly by higher costs in the Optical Communications, Specialty Materials and Life Sciences segments. As a percentage of net sales, research, development and engineering expenses declined slightly in the year ended December 31, 2013, when compared to the same period in 2012.

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## Restructuring, Impairment, and Other Charges and Credits

Corning recorded restructuring, impairment, and other charges and credits in 2014, 2013 and 2012, which affect the comparability of our results for the periods presented. Additional information on restructuring and asset impairment is found in Note 2 (Restructuring, Impairment and Other Charges) to the Consolidated Financial Statements. A description of those charges and credits follows:

### 2014 Activity

For the year ended December 31, 2014, we recorded charges of \$71 million for workforce reductions, asset disposals and write-offs, and exit costs for restructuring activities with total cash expenditures estimated to be \$51 million. Annualized savings from these actions are estimated to be approximately \$94 million and will be reflected largely in selling, general, and administrative expenses.

### 2013 Activity

To better align our 2014 cost position in several of our businesses, Corning implemented a global restructuring plan within several of our segments in the fourth quarter of 2013, consisting of workforce reductions, asset disposals and write-offs, and exit costs. We recorded charges of \$67 million, before tax, associated with these actions, with total cash expenditures expected to be approximately \$40 million.

### 2012 Activity

In response to uncertain global economic conditions, and the potential for slower growth in many of our businesses in 2013, Corning implemented a corporate-wide restructuring plan in the fourth quarter of 2012. We recorded charges of \$89 million, before tax, which included costs for workforce reductions, asset write-offs and exit costs. Total cash expenditures associated with these actions were approximately \$49 million, and spending for employee-related costs was completed in 2013.

The Specialty Materials segment recorded an impairment charge in the fourth quarter of 2011 in the amount of \$130 million, before tax, related to certain assets used in the production of large cover glass due to sales that were significantly below our expectations. In the fourth quarter of 2012, after reassessing the large cover glass business, Corning concluded that the large cover glass market was developing differently in 2012 than our expectations, demand for larger-sized cover glass was declining, and the market for this type of glass was instead targeting smaller gen size products. Additionally, in the fourth quarter of 2012, our primary customer of large cover glass notified Corning of its decision to exit from this display market. Based on these events, we recorded an additional impairment charge in the fourth quarter of 2012 in the amount of \$44 million, before tax. This impairment charge represents a write-down of assets specific to the glass-strengthening process for large size cover glass to their fair market values, and includes machinery and equipment used in the ion exchange process.

### Asbestos Litigation

In 2014, we recorded a decrease to our asbestos litigation liability of \$9 million compared to an increase of \$19 million in 2013 and \$14 million in 2012.

Our asbestos litigation liability was estimated to be \$681 million at December 31, 2014, compared with an estimate of \$690 million at December 31, 2013. The entire obligation is classified as a non-current liability as installment payments for the cash portion of the obligation are not planned to commence until more than 12 months after the

proposed Amended PCC Plan is ultimately effective, and a portion of the obligation will be fulfilled through the direct contribution of Corning's investment in PCE (currently recorded as a non-current other equity method investment).

See Legal Proceedings for additional information about this matter.

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## Equity in Earnings of Affiliated Companies

The following provides a summary of equity earnings of affiliated companies (in millions):

|                                     | Years ended December 31, |        |        |
|-------------------------------------|--------------------------|--------|--------|
|                                     | 2014                     | 2013   | 2012   |
| Samsung Corning Precision Materials |                          | \$ 320 | \$ 699 |
| Dow Corning                         | \$ 252                   | 196    | 90     |
| All other                           | 14                       | 31     | 21     |
| Total equity earnings               | \$ 266                   | \$ 547 | \$ 810 |

Equity earnings of affiliated companies decreased in the twelve months ended December 31, 2014, when compared to the same period last year, reflecting the Acquisition and consolidation of Samsung Corning Precision Materials, offset somewhat by an increase in equity earnings from Dow Corning.

## Dow Corning

The following table provides a summary of equity earnings from Dow Corning, by component (in millions):

|   | Year ended December 31, |        |        |
|---|-------------------------|--------|--------|
|   | 2014                    | 2013   | 2012   |
| Silicones                                 | \$ 653                  | \$ 166 | \$ 122 |
| Polysilicon (Hemlock Semiconductor Group) | (401)                   | 30     | (32)   |
| Total Dow Corning                         | \$ 252                  | \$ 196 | \$ 90  |

Beginning in the latter half of 2011, and continuing into 2012, Dow Corning began experiencing unfavorable industry conditions at its consolidated subsidiary Hemlock, a producer of high purity polycrystalline silicon for the semiconductor and solar industries, driven by over-capacity at all levels of the solar industry supply chain. This over-capacity led to significant declines in polycrystalline spot prices in the fourth quarter of 2011, and prices remained depressed throughout 2012. In 2013, markets stabilized, but prices remain significantly below historical levels.

Due to the conditions and uncertainties during 2012 described above, sales volume declined and production levels of certain operating assets were reduced. As a result, in the fourth quarter of 2012, Dow Corning determined that a polycrystalline silicon plant expansion previously delayed since the fourth quarter of 2011 would no longer be economically viable and made the decision to abandon this expansion activity. The abandonment resulted in an impairment charge of \$57 million, before tax, for Corning's share of the write down in the value of these construction-in-progress assets. Further, the startup of another polycrystalline silicon plant expansion that was expected to begin production in 2013 was delayed and its assets were idled.

In July 2012, the MOFCOM initiated antidumping and countervailing duty investigations of imports of solar-grade polycrystalline silicon products from the U.S. and South Korea based on a petition filed by Chinese solar-grade polycrystalline silicon producers. The petition alleged that producers within these countries exported solar-grade polycrystalline silicon to China at less than fair value and that production of solar-grade polycrystalline silicon in the U.S. has been subsidized by the U.S. government. On July 18, 2013, MOFCOM announced its preliminary determination that China's solar-grade polycrystalline silicon industry suffered material damage because of dumping by producers in the U.S. and Korea. The Chinese authorities imposed provisional antidumping duties on producers in the U.S. and Korea ranging from 2.4% to 57.0%, including duties of 53.3% on future imports of solar-grade polycrystalline silicon product from the Dow Corning subsidiary into China. On September 16, 2013, the Chinese

authorities imposed provisional countervailing duties of 6.5% on solar grade polycrystalline silicon products from the Dow Corning subsidiary. On January 20, 2014, MOFCOM issued a final determination. The final determination resulted in no change to the antidumping duties, and the countervailing duties were reduced to 2.1%. The requirement for customers to pay provisional duties on imports from solar-grade polycrystalline silicon producers became effective on July 24, 2013 for the antidumping duties and on September 20, 2013 for the countervailing duties, adjusted for the final determination. Dow Corning will not be subject to duties for previous sales.

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In December 2014, Dow Corning determined its polycrystalline silicon plant expansion which was delayed in the fourth quarter of 2012, would not be economically viable and made the decision to permanently abandon the assets. This decision was made after review of sustained adverse market conditions and continued oversupply, the cost of operating the facility and the ongoing impact of tariffs on polycrystalline silicon imported into China. The decision to permanently cease use of these assets resulted in Dow Corning taking a pre-tax charge of approximately \$1.5 billion in the fourth quarter of 2014 (Corning's share after-tax: \$465 million). As a result of the significant change in the use of this asset, Dow Corning assessed whether the carrying value of all polycrystalline silicon assets might be impaired. Dow Corning's estimates of future undiscounted cash flows indicated the polycrystalline silicon asset group was recoverable.

In May 1995, Dow Corning filed for bankruptcy protection to address pending and claimed liabilities arising from breast implant product lawsuits. On June 1, 2004, Dow Corning emerged from Chapter 11 with a Plan of Reorganization (the "Plan") which provided for the settlement or other resolution of implant claims. Under the Plan, Dow Corning established and agreed to fund a products liability settlement program (the "Settlement Facility"). The Plan contains a cap on the amount of payments required from Dow Corning to fund the Settlement Facility. Inclusive of insurance, Dow Corning has paid approximately \$1.8 billion to the Settlement Facility, and approximately \$1.3 billion has been paid to claimants out of the Settlement Facility. Dow Corning's recorded liability related to implant matters ("Implant Liability") was approximately \$1.7 billion at September 30, 2014, representing Dow Corning's estimated remaining obligation for future funding of the Settlement Facility.

During the fourth quarter of 2014, Dow Corning, with the assistance of a third-party advisor, developed an estimate of the future Implant Liability based on evidence that the actual funding required for the Settlement Facility is expected to be lower than the full funding cap set forth in the Plan. On December 12, 2014, Dow Corning reduced its Implant Liability by approximately \$1.3 billion (Corning's share after-tax: \$393 million). Previously, the Implant Liability was based on the full funding cap set forth in the Plan. The revised Implant Liability reflects Dow Corning's best estimate of its remaining obligations under the Plan. Should events or circumstances occur in the future which change Dow Corning's estimate of the remaining funding obligations, the Implant Liability will be revised. This adjustment does not affect Dow Corning's commitment or ability to fulfill its obligations under the settlement, and all claims that qualify under the settlement will be paid according to the terms of the Plan.

#### 2014 vs. 2013

Equity earnings from Dow Corning increased by \$56 million in the twelve months ended December 31, 2014, when compared to the same period in 2013, driven by the following items:

- An increase in equity earnings of \$487 million in the silicones segment, driven by the gain resulting from the reduction of the Implant Liability in the amount of \$393 million, favorable tax adjustments in the amount of \$46 million and a decrease in tax expense, offset somewhat by a \$5 million decrease in the amount of gains recorded on the mark-to-market of a derivative instrument; and
- An decrease in equity earnings of \$431 million in the polysilicon segment, driven by Corning's share of Dow Corning's charge for the abandonment of a polycrystalline silicon plant expansion in the amount of \$465, offset slightly by higher volume, the absence of \$11 million in restructuring charges incurred in the first half of 2013, a gain in the amount of \$6 million related to energy tax credits and the settlement of a long-term sales agreement in the first quarter of 2014 in the amount of \$9 million.

#### 2013 vs. 2012

Equity earnings from Dow Corning increased by 118% in the twelve months ended December 31, 2013 when compared to the same period in 2012, due to the following items:

- In the silicones segment, a gain of \$20 million associated with the termination of a long-term sales agreement, the positive impact of the recognition of a derivative instrument in the amount of \$16 million, the absence of the 2012 restructuring charge of \$30 million, coupled with cost reduction resulting from these actions, and lower variable compensation costs. The increase in earnings was partially offset by the negative impact of price declines and weaker demand in Asia and the Americas; and
- In the polysilicon segment, the absence of the impairment charge of \$57 million recorded in 2012 related to the abandonment of a polycrystalline silicon plant expansion, offset by Corning's share of restructuring charges at Hemlock in the amount of \$11 million and the absence of the gain of \$10 million associated with the resolution of a contract dispute.

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## Other Income, Net

“Other income, net” in Corning’s consolidated statements of income includes the following (in millions):

|   | Years ended December 31, |        |       |
|---|--------------------------|--------|-------|
|   | 2014                     | 2013   | 2012  |
| Royalty income from Samsung Corning Precision Materials |                          | \$ 56  | \$ 83 |
| Foreign currency transaction and hedge gains, net       | \$ 1,352                 | 500    | 8     |
| Loss on retirement of debt                              |                          |        | (26)  |
| Foreign government subsidy                              | 3                        | 55     |       |
| Other, net  | 39                       | 56     | 18    |
| Total   | \$ 1,394                 | \$ 667 | \$ 83 |

Beginning in the first quarter of 2014, due to the Acquisition and consolidation of Samsung Corning Precision Materials (now Corning Precision Materials), royalty income from Corning Precision Materials is no longer recognized in Corning’s consolidated statement of income.

Included in the line item Foreign currency transaction and hedge gains, net, for the years ended December 31, 2014 and 2013 is the impact of purchased collars and average forward contracts which hedge our translation exposure resulting from movements in the Japanese yen against the U.S. dollar and its impact on our net earnings. In the years ended December 31, 2014 and 2013, we recorded net pre-tax gains on our yen-denominated hedging programs in the amount of \$1,406 million and \$435 million, respectively, which included \$344 million and \$110 million of realized gains, respectively. These gains were driven by the mark-to-market valuation of the purchased collars and average forward contracts, and occurred due to the depreciation in the 2014 and 2013 exchange rates for the Japanese yen versus the U.S. dollar of 14% and 22%, respectively. The gross notional value outstanding for purchased collars and average rate forward contracts was \$9.8 billion at December 31, 2014 and \$6.8 billion at December 31, 2013. Refer to Item 7A Quantitative and Qualitative Disclosures About Market Risks for additional details.

In the second quarter of 2014, following the Acquisition, we entered into a portfolio of zero cost collars to hedge our exposure to movements in the Korean won and its impact on our net earnings. These zero cost collars have a gross notional value outstanding at December 31, 2014 of \$2.3 billion, and began settling quarterly in the third quarter of 2014 and will conclude at the end of 2015. The net pre-tax loss on these zero cost collars, which is also included in the line item Foreign currency transaction and hedge gains, net, was \$37 million for the twelve months ended December 31, 2014, and included \$6 million of realized losses.

## Income Before Income Taxes

Income before income taxes for the year ended December 31, 2014, was negatively impacted by the depreciation of the Japanese yen versus the U.S. dollar in the amount of \$297 million.

## Provision for Income Taxes

Our provision for income taxes and the related effective income tax rates were as follows (dollars in millions):

|                            | Years ended December 31, |        |        |
|----------------------------|--------------------------|--------|--------|
|                            | 2014                     | 2013   | 2012   |
| Provision for income taxes | \$ 1,096                 | \$ 512 | \$ 339 |
| Effective tax rate         | 30.7%                    | 20.7%  | 17.2%  |

The effective income tax rate for 2014 differed from the U.S. statutory rate of 35% primarily due to the following items:

- Rate differences on income (loss) of consolidated foreign companies, including the benefit of excess foreign tax credits attributable to a taxable intercompany loan made to the U.S., and
  - The impact of equity in earnings of nonconsolidated affiliates reported in the financials, net of tax.

Partially offsetting the benefits above is a \$177 million charge attributable to a change in judgment on the realizability of certain foreign deferred taxes assets in Germany and Japan.

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The effective income tax rate for 2013 differed from the U.S. statutory rate of 35% primarily due to the following items:

- Rate differences on income (loss) of consolidated foreign companies;
- The impact of equity in earnings of nonconsolidated affiliates reported in the financials, net of tax;
  - The benefit of tax incentives in foreign jurisdictions, primarily Taiwan; and
- Tax benefit of \$54 million for the impact of the American Taxpayer Relief Act enacted on January 3, 2013 and made retroactive to 2012.

Partially offsetting the benefits above is a \$48 million charge attributable to a change in the judgment regarding the realizability of certain foreign and state deferred tax assets.

Corning has valuation allowances on certain shorter-lived deferred tax assets such as those represented by capital loss and state tax net operating loss carry forwards, as well as other foreign net operating loss carryforwards, because we cannot conclude that it is more likely than not that we will earn income of the character or amount required to utilize these assets before they expire. The amount of U.S. and foreign deferred tax assets that have remaining valuation allowances at December 31, 2014 and 2013 was \$298 million and \$286 million, respectively.

Corning continues to indefinitely reinvest substantially all of its foreign earnings, with the exception of approximately \$10 million of current earnings that have very low or no tax cost associated with their repatriation. Our current analysis indicates that we have sufficient U.S. liquidity, including borrowing capacity, to fund foreseeable U.S. cash needs without requiring the repatriation of foreign cash. One time or unusual items that may impact our ability or intent to keep our foreign earnings and cash indefinitely reinvested include significant U.S. acquisitions, stock repurchases, shareholder dividends, changes in tax laws, derivative contract settlements or the development of tax planning ideas that allow us to repatriate earnings at minimal or no tax cost, and/or a change in our circumstances or economic conditions that negatively impact our ability to borrow or otherwise fund U.S. needs from existing U.S. sources. As of December 31, 2014, taxes have not been provided on approximately \$10.3 billion of accumulated foreign unremitted earnings that are expected to remain invested indefinitely. While it remains impracticable to calculate the tax cost of repatriating our total unremitted foreign earnings, such cost could be material to the results of operations of Corning in a particular period.

Our foreign subsidiary in Taiwan operates under various tax holiday arrangements. The nature and extent of such arrangements vary, and the benefits of such arrangements phase out through 2018. The impact of the tax holidays on our effective rate is a reduction in the rate of 0.4, 1.2 and 1.7 percentage points for 2014, 2013 and 2012, respectively.

While we expect the amount of unrecognized tax benefits to change in the next 12 months, we do not expect the change to have a significant impact on the results of operations or our financial position.

Refer to Note 6 (Income Taxes) to the Consolidated Financial Statements for further details regarding income tax matters.

#### Net Income Attributable to Corning Incorporated

As a result of the items discussed above, net income and per share data was as follows (in millions, except per share amounts):

|  | Years ended December 31, |      |      |
|--|--------------------------|------|------|
|  | 2014                     | 2013 | 2012 |

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|   |          |          |          |
|---|----------|----------|----------|
| Net income attributable to Corning Incorporated | \$ 2,472 | \$ 1,961 | \$ 1,636 |
| Basic earnings per common share                 | \$ 1.82  | \$ 1.35  | \$ 1.10  |
| Diluted earnings per common share               | \$ 1.73  | \$ 1.34  | \$ 1.09  |
| Shares used in computing per share amounts      |          |          |          |
| Basic earnings per common share                 | 1,305    | 1,452    | 1,494    |
| Diluted earnings per common share               | 1,427    | 1,462    | 1,506    |

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## Comprehensive Income

| (In millions)   | Years ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2014                     | 2013     | 2012     |
| Net income attributable to Corning Incorporated                                     | \$ 2,472                 | \$ 1,961 | \$ 1,636 |
| Foreign currency translation adjustments and other                                  | (1,073)                  | (682)    | (179)    |
| Net unrealized (losses) gains on investments  | (1)                      | 2        | 13       |
| Unamortized (losses) gains and prior service costs for postretirement benefit plans | (281)                    | 392      | (1)      |
| Net unrealized gains (losses) on designated hedges                                  | 4                        | (24)     | 47       |
| Other comprehensive loss, net of tax (Note 17)                                      | (1,351)                  | (312)    | (120)    |
| Comprehensive income attributable to Corning Incorporated                           | \$ 1,121                 | \$ 1,649 | \$ 1,516 |

## 2014 vs. 2013

For the year ended December 31, 2014, comprehensive income decreased by \$528 million when compared to the same period in 2013, driven by an increase in unamortized losses for postretirement benefit plans and the negative impact of the change in foreign currency translation adjustments, offset by an increase of \$511 million in net income attributable to Corning Incorporated.

The increase in unamortized losses for postretirement benefit plans in the amount of \$673 million is driven mainly by changes to the discount rate and mortality assumptions used to value Corning's U.S. pension and postretirement medical and life benefit plan ("OPEB") obligations and the benefit plan obligations of our equity affiliate Dow Corning at December 31, 2014. Corning and Dow Corning adopted the Society of Actuaries mortality table RP-2014 published in October, 2014, along with an updated improvement scale, and the discount rate for our U.S. benefit plans decreased between 75 and 100 basis points. At December 31, 2014, the decrease in discount rates and the change in the mortality assumption for our U.S. plans led to an actuarial after-tax loss of approximately \$281 million versus a gain in 2013 of \$392 million. The loss of \$281 million occurring in 2014 included the impact to our U.S. pension and OPEB plans from the mortality table change in the amount of \$88 million, the impact of \$89 million from changes in other actuarial assumptions and \$124 million from our equity affiliate Dow Corning, offset by reclassifications to the income statement of \$20 million after-tax related to U.S. non-qualified and international pension plans. Because the actuarial loss for our U.S. qualified pension plan did not fall outside of the corridor, which is defined as equal to 10% of the greater of the benefit obligation or the market-related value of plan assets at the beginning of the year, it was recorded in accumulated other comprehensive income ("AOCI") and did not impact net income for the year ended December 31, 2014.

The increase in the loss on foreign currency translation adjustments for the year ended December 31, 2014 in the amount of \$391 million was driven by the following items: 1) the increase in the loss in the translation of Corning's consolidated subsidiaries in the amount of \$65 million, which resulted primarily from the depreciation of the Japanese yen to U.S. dollar translation rate during 2014; 2) the increase in the loss in the translation of Corning's equity method investments in the amount of \$190 million; and 3) the reclassification of a gain to net income in the amount of \$136 million related to the Acquisition of Samsung Corning Precision Materials.

## 2013 vs. 2012

For the year ended December 31, 2013, comprehensive income increased by \$133 million, when compared to the same period in 2012, driven by an increase in net income attributable to Corning Incorporated and an increase in

unamortized gains for postretirement benefit plans, offset partially by the increase in the loss on foreign currency translation adjustments.

The increase in the amount of unamortized gains for postretirement benefit plans is due to an increase of between 75 and 100 basis points in the discount rates used to value Corning's U.S. pension and postretirement medical and life benefit plan ("OPEB") obligations and the benefit plan obligations of our equity affiliate Dow Corning. At December 31, 2013, the increase in discount rates led to an actuarial after-tax gain of \$392 million. Because this gain did not fall outside of the corridor, which is defined as equal to 10% of the greater of the benefit obligation or the market-related value of plan assets at the beginning of the year, the gain was recorded in AOCI and did not impact net income for the year ended December 31, 2013.

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The increase in the loss on foreign currency translation adjustments for the year ended December 31, 2013 in the amount of \$503 million was driven by the following items: 1) the increase in the loss in the translation of Corning's consolidated subsidiaries in the amount of \$317 million, which resulted primarily from the depreciation of the Japanese yen to U.S. dollar translation rate during 2013; 2) the increase in the loss in the translation of Corning's equity method investments in the amount of \$238 million, which is attributed to the change in the Korean won to U.S. dollar translation rate during 2013, which impacted our equity affiliate Samsung Corning Precision Materials; and 3) the absence of the 2012 reclassification of a gain to net income in the amount of \$52 million related to the gain on the liquidation of a foreign subsidiary.

See Note 13 (Employee Retirement Plans) and Note 17 (Shareholders' Equity) for additional details.

### CORE PERFORMANCE MEASURES

In managing the Company and assessing our financial performance, we supplement certain measures provided by our consolidated financial statements with measures adjusted to exclude certain items, to arrive at Core Performance measures. We believe reporting Core Performance measures provides investors greater transparency to the information used by our management team to make financial and operational decisions. Net sales, equity in earnings of affiliated companies, and net income are adjusted to exclude the impacts of changes in the Japanese yen and Korean won, the impact of the purchased and zero cost collars, average forward contracts and other yen-related transactions, acquisition-related costs, the 2013 results of the polysilicon business of our equity affiliate Dow Corning Corporation, discrete tax items, restructuring and restructuring-related charges, certain litigation and regulatory expenses, pension mark-to-market adjustments, and other items which do not reflect on-going operating results of the Company or our equity affiliates. Management discussion and analysis on our reportable segments has also been adjusted for these items. These measures are not prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). We believe investors should consider these non-GAAP measures in evaluating our results as they are more indicative of our core operating performance and how management evaluates our operational results and trends. These measures are not, and should not be viewed as a substitute for U.S. GAAP reporting measures. For a reconciliation of non-GAAP performance measures and a further discussion of the measures, please see "Reconciliation of Non-GAAP Measures" below.

### RESULTS OF OPERATIONS – CORE PERFORMANCE MEASURES

Selected highlights from our continuing operations follow (in millions):

|  | 2014      | 2013     | 2012     | % change  |           |
|--|-----------|----------|----------|-----------|-----------|
|  |           |          |          | 14 vs. 13 | 13 vs. 12 |
| Core net sales                                     | \$ 10,217 | \$ 7,948 | \$ 7,605 | 29        | 5         |
| Core equity in earnings of affiliated companies    | \$ 311    | \$ 595   | \$ 713   | 48        | (17)      |
| Core earnings attributable to Corning Incorporated | \$ 2,185  | \$ 1,797 | \$ 1,595 | 22        | 13        |

#### Core Net Sales

Corning's core net sales in the year ended December 31, 2014 improved in all of our segments, increasing by \$2,269 million to \$10,217 million, when compared to the same period in 2013. Driving the growth in core net sales are the following items:

- Display Technologies increased by \$1.7 billion, due to the consolidation of Corning Precision Materials, which increased sales by \$1.9 billion, and an increase in volume that was slightly more than 10% in percentage terms, offset somewhat by price declines in the mid-teens;
- Optical Communications increased by \$326 million, driven by an increase in sales of carrier network products in the amount of \$254 million, largely due to growth in North America and Europe, up \$113 million and \$46 million, respectively, the impact of a full year of sales from a small acquisition and the consolidation of an investment due to a change in control that occurred at the end of the second quarter of 2013, which added \$53 million, and an increase of \$72 million in enterprise network products. These increases were offset slightly by a \$52 million decrease in optical fiber sales in China;
  - An increase of \$173 million in the Environmental Technologies segment, due mainly to an increase in demand for our heavy duty diesel products, driven by new governmental regulations in Europe and China, and increased demand for Class 8 vehicles in North America. Automotive substrate sales were also strong, increasing 9%, on increased demand in Europe and China;
- Specialty Materials improved by \$35 million, driven by an increase in sales of advanced optics products. Corning Gorilla Glass sales remained consistent with the prior year, with volume increases offset by an unfavorable shift in product mix and price declines; and
- Life Sciences increased by \$11 million, driven by growth in North America and China, up \$12 million and \$5 million, respectively.

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For the year ended December 31, 2013, core net sales increased by 5% when compared to the same period in 2012. Higher net core sales in the Display Technologies, Optical Communications and Life Sciences segments were offset slightly by declines in the Environmental Technologies and Specialty Materials segments. The change in core net sales was driven by the following events:

- In the Display Technologies segment, volume increases in the mid-twenties in percentage terms more than offset price declines in the mid-teens, which drove an increase in core sales of \$173 million, or 7%;
- Optical Communications increased by \$196 million, driven by an increase in sales of our carrier products in the amount of \$163 million, largely due to the ramp-up of the fiber-to-the-premises initiative in Australia, which increased by \$28 million, an increase of \$23 million in sales of wireless products and higher sales of cable products in North America, China and Europe, up \$52 million, \$33 million and \$26 million, respectively;
- An increase in the Life Sciences segment of \$194 million, driven by the impact of the acquisition of the Discovery Labware business in the fourth quarter of 2012;
- In the Environmental Technologies segment, while automotive product sales remained relatively consistent with the prior year, core sales of our diesel products declined by 9%; and
- A decline of \$176 million in the Specialty Materials segment, due to a 17% decline in Corning Gorilla Glass sales.

#### Core Equity in Earnings of Affiliated Companies

The following provides a summary of core equity in earnings of affiliated companies (in millions):

|                                     | 2014   | 2013   | 2012   | % change  |           |
|-------------------------------------|--------|--------|--------|-----------|-----------|
|                                     |        |        |        | 14 vs. 13 | 13 vs. 12 |
| Samsung Corning Precision Materials |        | \$ 419 | \$ 549 |           | (24)      |
| Dow Corning *                       | \$ 287 | \$ 145 | \$ 143 | 98        | 1         |
| All other                           | \$ 24  | \$ 31  | \$ 21  | (23)      | 48        |
| Total core equity earnings          | \$ 311 | \$ 595 | \$ 713 | (48)      | (17)      |

\*In 2013 and 2012, 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.

Core equity earnings of affiliated companies decreased in the twelve months ended December 31, 2014, when compared to the same period last year, reflecting the Acquisition and consolidation of Samsung Corning Precision Materials, offset somewhat by an increase in equity earnings from Dow Corning.

#### Dow Corning

The following table provides a summary of core equity earnings from Dow Corning, by component (in millions):

|   | Year ended December 31, |        |        |
|---|-------------------------|--------|--------|
|   | 2014                    | 2013   | 2012   |
| Silicones                                 | \$ 197                  | \$ 145 | \$ 143 |
| Polysilicon (Hemlock Semiconductor Group) | 90                      | 31     | 25     |
| Total Dow Corning                         | \$ 287                  | \$ 176 | \$ 168 |

The following table reconciles the non-GAAP financial measure of equity earnings from Dow Corning to its most directly comparable GAAP financial measure:

|  | 2014 | 2013 | 2012 |
|--|------|------|------|
|--|------|------|------|

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|   |        |        |        |
|---|--------|--------|--------|
| As reported                                     | \$ 252 | \$ 196 | \$ 90  |
| Hemlock Semiconductor operating results (3)     |        | (31)   | (25)   |
| Hemlock Semiconductor non-operating results (3) |        | (1)    | 77     |
| Equity in earnings of affiliated companies (9)  | 35     | (19)   | 1      |
| Core Performance measures                       | \$ 287 | \$ 145 | \$ 143 |

See Part 1, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations – Core Performance Measures, "Items which we exclude from GAAP measures to arrive at Core Performance measures" for the descriptions of the footnoted reconciling items.

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#### 2014 vs. 2013

Core equity earnings from Dow Corning increased in the twelve months ended December 31, 2014, when compared to the same period in 2013, driven by higher earnings in both the silicones and polysilicon segments. Driving the increase was a decrease in tax expense in the silicones segment and higher volume and improved manufacturing performance in the polysilicon segment.

#### 2013 vs. 2012

Core equity earnings of affiliated companies declined by 17% in the year ended December 31, 2013, when compared to the same period in 2012. Equity earnings from Samsung Corning Precision Materials decreased by \$130 million, or 24%, driven primarily by price declines in the mid-teens in percentage terms and higher taxes due to the expiration of tax holidays in the amount of \$54 million. Slightly offsetting the decline were manufacturing improvements in the amount of \$28 million. Core equity earnings from Dow Corning were relatively consistent in the twelve months ended December 31, 2013, when compared to the same period in 2012, with lower prices and weaker demand for silicone products in Europe and China and higher interest expense offset by a reduction in costs as a result of restructuring actions implemented in the fourth quarter of 2012.

#### Core Earnings

When compared to the same period last year, core earnings increased in the twelve months ended December 31, 2014 by \$388 million, or 22%, driven by the following items (amounts presented after-tax):

- The impact of the consolidation of Corning Precision Materials and the resulting cost reductions and efficiencies gained through synergies;
- An increase in core equity earnings from Dow Corning, driven by a decrease in tax expense, improved manufacturing efficiency and an increase in volume;
- An increase of \$57 million in the Environmental Technologies segment, driven by an increase in demand for our diesel products and improved manufacturing efficiency; and
- An increase of \$35 million in the Optical Communications segment, driven by higher sales of carrier network and enterprise network products.

The increase in core earnings for the year ended December 31, 2014 was offset somewhat by price declines in the mid-teens in percentage terms outpacing an increase in volume slightly higher than 10% in our Display Technologies segment.

When compared to the same period last year, core earnings increased in the twelve months ended December 31, 2013 by \$202 million, or 13%, driven by the following items:

- Higher core earnings in the Optical Communications, Life Sciences, Environmental Technologies and Display Technologies segments in the amounts of \$59 million, \$44 million, \$11 million and \$7 million, respectively; and
- Lower operating expenses in the amount of \$49 million, driven by a decrease in variable compensation and cost control measures implemented by our segments.

Included in core earnings for the years ended December 31, 2014, 2013 and 2012 is net periodic pension expense in the amount of \$74 million, \$37 million and \$63 million, respectively, which excludes the annual pension mark-to-market adjustments. In 2014, 2013 and 2012, the mark-to-market adjustments were a pre-tax loss in the amount of \$29 million, a gain in the amount of \$30 million and a loss in the amount of \$217 million, respectively. Refer to Note 13 (Employee Retirement Plans) to the Consolidated Financial Statements for additional information.

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## Core Earnings per Common Share

The following table sets forth the computation of core basic and core diluted earnings per common share (in millions, except per share amounts):

|  | 2014     | 2013     | 2012     |
|--|----------|----------|----------|
| Core earnings attributable to Corning Incorporated       | \$ 2,185 | \$ 1,797 | \$ 1,595 |
| Less: Series A convertible preferred stock dividend      | 94       |          |          |
| Core earnings available to common stockholders - basic   | 2,091    | 1,797    | 1,595    |
| Add: Series A convertible preferred stock dividend       | 94       |          |          |
| Core earnings available to common stockholders - diluted | \$ 2,185 | \$ 1,797 | \$ 1,595 |
| Weighted-average common shares outstanding - basic       | 1,305    | 1,452    | 1,494    |
| Effect of dilutive securities:                           |          |          |          |
| Stock options and other dilutive securities              | 12       | 10       | 12       |
| Series A convertible preferred stock                     | 110      |          |          |
| Weighted-average common shares outstanding - diluted     | 1,427    | 1,462    | 1,506    |
| Core basic earnings per common share                     | \$ 1.60  | \$ 1.24  | \$ 1.07  |
| Core diluted earnings per common share                   | \$ 1.53  | \$ 1.23  | \$ 1.06  |

## Reconciliation of Non-GAAP Measures

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 as calculated and presented in accordance with GAAP in the statement of income or statement of cash flows.

Core net sales, core 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.

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The following tables reconcile our non-GAAP financial measures to their most directly comparable GAAP financial measure.

|  | Year ended December 31, 2014 |                 |                     |            |                    |                    |
|--|------------------------------|-----------------|---------------------|------------|--------------------|--------------------|
|  | Net sales                    | Equity earnings | Income before taxes | Net income | Effective tax rate | Earnings per share |
| As reported  | \$ 9,715                     | \$ 266          | \$ 3,568            | \$ 2,472   | 30.7%              | \$ 1.73            |
| Constant-yen (1)   | 502                          | 2               | 419                 | 306        |                    | 0.22               |
| Constant-won (1)   |                              |                 | 37                  | 26         |                    | 0.02               |
| Purchased collars and average forward contracts (2)                                |                              |                 | (1,369)             | (916)      |                    | (0.64)             |
| Acquisition-related costs (4)  |                              |                 | 74                  | 57         |                    | 0.04               |
| Discrete tax items and other tax-related adjustments (5)                           |                              |                 |                     | 240        |                    | 0.17               |
| Litigation, regulatory and other legal matters (6)                                 |                              |                 | (1)                 | (2)        |                    |                    |
| Restructuring, impairment and other charges (7)                                    |                              |                 | 86                  | 66         |                    | 0.05               |
| Liquidation of subsidiary (8)  |                              |                 |                     | (3)        |                    |                    |
| Equity in earnings of affiliated companies (9)                                     |                              | 43              | 43                  | 38         |                    | 0.03               |
| Gain on previously held equity investment (10)                                     |                              |                 | (394)               | (292)      |                    | (0.20)             |
| Settlement of pre-existing contract (10)   |                              |                 | 320                 | 320        |                    | 0.22               |
| Contingent consideration fair value adjustment (10)                                |                              |                 | (249)               | (194)      |                    | (0.14)             |
| Post-combination expenses (10)   |                              |                 | 72                  | 55         |                    | 0.04               |
| Other items related to the Acquisition of Samsung Corning Precision Materials (10) |                              |                 | (10)                | (12)       |                    | (0.01)             |
| Pension mark-to-market adjustment (11)   |                              |                 | 29                  | 24         |                    | 0.02               |
| Core performance measures  | \$ 10,217                    | \$ 311          | \$ 2,625            | \$ 2,185   | 16.8%              | \$ 1.53            |

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| (in millions)  | Year ended December 31, 2013 |                 |                            |            |                    |           |
|--|------------------------------|-----------------|----------------------------|------------|--------------------|-----------|
|  | Net sales                    | Equity earnings | Income before income taxes | Net income | Effective tax rate | Per share |
| As reported  | \$ 7,819                     | \$ 547          | \$ 2,473                   | \$ 1,961   | 20.7%              | \$ 1.34   |
| Constant-yen (1)   | 129                          | 36              | 122                        | 96         |                    | 0.07      |
| Purchased collars and average rate forwards (2)          |                              |                 | (435)                      | (287)      |                    | (0.20)    |
| Other yen-related transactions (2)                       |                              |                 | (99)                       | (69)       |                    | (0.05)    |
| Hemlock Semiconductor operating results (3)              |                              | (31)            | (31)                       | (30)       |                    | (0.02)    |
| Hemlock Semiconductor non-operating results (3)          |                              | 1               | 1                          | 1          |                    |           |
| Acquisition-related costs (4)                            |                              |                 | 54                         | 40         |                    | 0.03      |
| Discrete tax items and other tax-related adjustments (5) |                              |                 |                            | 9          |                    | 0.01      |
| Certain litigation-related charges and credits (6)       |                              |                 | 19                         | 13         |                    | 0.01      |
| Restructuring, impairment and other charges (7)          |                              |                 | 67                         | 46         |                    | 0.03      |
| Equity in earnings of affiliated companies (9)           |                              | 42              | 42                         | 44         |                    | 0.02      |
| Pension mark-to-market adjustment (11)                   |                              |                 | (30)                       | (17)       |                    | (0.01)    |
| Gain on change in control of equity investment (12)      |                              |                 | (17)                       | (12)       |                    | (0.01)    |
| Other  |                              |                 | 4                          | 2          |                    |           |
| Core performance measures                                | \$ 7,948                     | \$ 595          | \$ 2,170                   | \$ 1,797   | 17.2%              | \$ 1.23   |

| (in millions)                                   | Year ended December 31, 2012 |                 |                            |            |                    |           |
|---|------------------------------|-----------------|----------------------------|------------|--------------------|-----------|
|   | Net sales                    | Equity earnings | Income before income taxes | Net income | Effective tax rate | Per share |
| As reported                                     | \$ 8,012                     | \$ 810          | \$ 1,975                   | \$ 1,636   | 17.2%              | \$ 1.09   |
| Constant-yen (1)                                | (407)                        | (167)           | (434)                      | (353)      |                    | (0.23)    |
| Other yen-related transactions (2)              |                              |                 | (22)                       | (16)       |                    | (0.01)    |
| Hemlock Semiconductor operating results (3)     |                              | (25)            | (25)                       | (23)       |                    | (0.02)    |
| Hemlock Semiconductor non-operating results (3) |                              | 77              | 77                         | 72         |                    | 0.05      |

|  |          |        |          |          |        |         |
|--|----------|--------|----------|----------|--------|---------|
| Acquisition-related costs (4)                            |          | 24     | 16       |          | 0.01   |         |
| Discrete tax items and other tax-related adjustments (5) |          |        | 41       |          | 0.03   |         |
| Certain litigation-related charges and credits (6)       |          | 14     | 9        |          | 0.01   |         |
| Restructuring, impairment and other charges (7)          |          | 133    | 91       |          | 0.06   |         |
| Pension mark-to-market adjustment (11)                   |          | 217    | 140      |          | 0.09   |         |
| Equity in earnings of affiliated companies (9)           | 18       | 18     | 17       |          | 0.01   |         |
| Loss on repurchase of debt (13)                          |          | 26     | 17       |          | 0.01   |         |
| Accumulated other comprehensive income (14)              |          | (52)   | (52)     |          | (0.03) |         |
| Core performance measures                                | \$ 7,605 | \$ 713 | \$ 1,951 | \$ 1,595 | 18.2%  | \$ 1.06 |

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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 Corning’s LCD glass business 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 December 31, 2014, we used an internally derived management rate of ¥93, which is aligned to our yen portfolio of purchased collars and average rate forwards, 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 Samsung Corning Precision Materials’ (now Corning Precision Materials) costs are denominated in 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 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. We have not recast prior periods presented as the impact is not material to Corning in those periods.
- (2) Purchased and zero cost collars, average forward contracts and other yen-related transactions: We have excluded the impact of our yen-denominated purchased collars, average forward contracts, and other yen-related transactions for each period presented. Additionally, we are also excluding the impact of our portfolio of Korean won-denominated zero cost collars which we entered into in the second quarter of 2014. By aligning an internally derived rate with our portfolio of purchased collars and average forward contracts, and excluding other yen-related transactions and the constant-currency adjustments, we have materially mitigated the impact of changes in the Japanese yen and Korean won.
- (3) Results of Dow Corning’s consolidated subsidiary, Hemlock Semiconductor: In 2013, we excluded the results of Dow Corning’s consolidated subsidiary, Hemlock Semiconductor, a producer of polycrystalline silicon, to remove the operating and non-operating items and events which have caused severe unpredictability and instability in earnings beginning in 2012. These events were primarily driven by the macro-economic environment. Specifically, the negative impact of the determination by the Chinese Ministry of Commerce (“MOFCOM”), which imposed provisional anti-dumping duties on solar-grade polysilicon imports from the United States, and the impact of asset write-offs, offset by the benefit of large payments required under Hemlock Semiconductor customers’ “take-or-pay” contracts, are events that are unrelated to Dow Corning’s core operations, and that have, or could have, significant impacts to this business. Beginning in 2014, due to the stabilization of the polycrystalline silicon industry, we will no longer exclude the operating results of Hemlock Semiconductor from core performance measures.
- (4) Acquisition-related costs: These expenses include intangible amortization, inventory valuation adjustments and external acquisition-related deal costs.
- (5) 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 a transfer pricing out of period adjustment in 2014. This item also includes the

- income tax effects of adjusting from GAAP earnings to core earnings.
- (6) 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 the settlement of litigation related to a small acquisition.
  - (7) Restructuring, impairment and other charges. This amount includes restructuring, impairment and other charges, as well as other expenses and disposal costs not classified as restructuring expense.
  - (8) Liquidation of subsidiary: The partial impact of non-restructuring related items due to the decision to liquidate a consolidated subsidiary that is not significant.
  - (9) 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.
  - (10) 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.
  - (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. Management believes that pension actuarial gains and losses are primarily financing activities that are more reflective of changes in current conditions in global financial markets, and are not directly related to the underlying performance of our businesses. For further information on the actuarial assumptions and plan assets referenced above, see Management’s Discussion and Analysis of Financial Condition and Results of Operations, under Critical Accounting Estimates - Employee Retirement Plans, and Note 13, Employee Retirement Plans, of Notes to the Consolidated Financial Statements.
  - (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.
  - (13) Loss on repurchase of debt: In 2012, Corning recorded a loss on the repurchase of \$13 million of our 8.875% senior unsecured notes due 2021, \$11 million of our 8.875% senior unsecured notes due 2016, and \$51 million of our 6.75% senior unsecured notes due 2013.
  - (14) Accumulated other comprehensive income: In 2012, Corning recorded a translation capital gain on the liquidation of a foreign subsidiary.

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## REPORTABLE SEGMENTS

Our reportable segments are as follows:

- Display Technologies – manufactures glass substrates for flat panel liquid crystal displays.
- Optical Communications – manufactures carrier network and enterprise network components for the telecommunications industry.
- Environmental Technologies – manufactures ceramic substrates and filters for automotive and diesel applications.
- Specialty Materials – manufactures products that provide more than 150 material formulations for glass, glass ceramics and fluoride crystals to meet demand for unique customer needs.
- Life Sciences – manufactures glass and plastic labware, equipment, media and reagents to provide workflow solutions for scientific applications.

All other reportable segments that do not meet the quantitative threshold for separate reporting have been grouped as “All Other”. This group is primarily comprised of development projects and results for new product lines.

We prepared the financial results for our segments on a basis that is consistent with the manner in which we internally disaggregate financial information to assist in making internal operating decisions. We included the earnings of equity affiliates that are closely associated with our reportable segments in the respective segment’s net income. We have allocated certain common expenses among our reportable segments differently than we would for stand-alone financial information prepared in accordance with U.S. GAAP. The Display Technologies, Optical Communications, Environmental Technologies, Specialty Materials and Life Sciences segments include non-GAAP measures which are not prepared in accordance with GAAP. We believe investors should consider these non-GAAP measures in evaluating our results as they are more indicative of our core operating performance and with how management evaluates our operational results and trends. These measures are not, and should not be viewed as a substitute for GAAP reporting measures. For a reconciliation of non-GAAP performance measures to the most directly comparable GAAP financial measure, please see “Reconciliation of non-GAAP Measures” below. Segment net income may not be consistent with measures used by other companies. The accounting policies of our reportable segments are the same as those applied in the consolidated financial statements.

## Display Technologies

(in millions)

| As Reported                             | 2014     | 2013     | 2012     | % change  |           |
|---|----------|----------|----------|-----------|-----------|
|   |          |          |          | 14 vs. 13 | 13 vs. 12 |
| Net sales                               | \$ 3,851 | \$ 2,545 | \$ 2,909 | 51        | (13)      |
| Equity earnings of affiliated companies | \$ (20)  | \$ 357   | \$ 692   | (106)     | (48)      |
| Net income                              | \$ 1,369 | \$ 1,267 | \$ 1,589 | 8         | (20)      |

(in millions)

| Core Performance | 2014     | 2013     | 2012     | % change  |           |
|------------------|----------|----------|----------|-----------|-----------|
|                  |          |          |          | 14 vs. 13 | 13 vs. 12 |
| Net sales        | \$ 4,354 | \$ 2,674 | \$ 2,501 | 63        | 7         |
|                  | \$ (10)  | \$ 420   | \$ 544   | (102)     | (23)      |

Equity earnings of affiliated  
companies

|            |          |          |          |    |   |
|------------|----------|----------|----------|----|---|
| Net income | \$ 1,390 | \$ 1,253 | \$ 1,246 | 11 | 1 |
|------------|----------|----------|----------|----|---|

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The following table reconciles the non-GAAP financial measures for the Display Technologies segment with our financial statements presented in accordance with GAAP (in millions).

| (in millions)  | Year ended<br>December 31, 2014 |                    |               | Year ended<br>December 31, 2013 |                    |               | Year ended<br>December 31, 2012 |                    |               |
|--|---------------------------------|--------------------|---------------|---------------------------------|--------------------|---------------|---------------------------------|--------------------|---------------|
|  | Sales                           | Equity<br>earnings | Net<br>income | Sales                           | Equity<br>earnings | Net<br>income | Sales                           | Equity<br>earnings | Net<br>income |
| As reported  | \$3,851                         | \$ (20)            | \$1,369       | \$2,545                         | \$ 357             | \$1,267       | \$2,909                         | \$ 692             | \$1,589       |
| Constant-yen (1)   | 502                             | 3                  | 316           | 129                             | 35                 | 99            | (408)                           | (166)              | (380)         |
| Constant-won (1)   |                                 |                    | 27            |                                 |                    |               |                                 |                    |               |
| Purchased collars<br>and average forward<br>contracts (2)                                      |                                 |                    | (290)         |                                 |                    | (90)          |                                 |                    |               |
| Other yen-related<br>transactions (2)  |                                 |                    |               |                                 |                    | (67)          |                                 |                    | (15)          |
| Acquisition-related<br>costs (4)   |                                 |                    | 37            |                                 |                    | 8             |                                 |                    |               |
| Discrete tax<br>items (5)  |                                 |                    | 4             |                                 |                    | 10            |                                 |                    |               |
| Restructuring,<br>impairment, and<br>other charges (7)   |                                 |                    | 40            |                                 |                    | 6             |                                 |                    | 17            |
| Equity in earnings of<br>affiliated<br>companies (9)   |                                 | 7                  | 6             |                                 | 28                 | 28            |                                 | 18                 | 18            |
| Contingent<br>consideration fair<br>value<br>adjustment (10)                                   |                                 |                    | (194)         |                                 |                    |               |                                 |                    |               |
| Other items related<br>to the Acquisition of<br>Samsung Corning<br>Precision<br>Materials (10) | 1                               |                    | 73            |                                 |                    |               |                                 |                    |               |
| Pension<br>mark-to-market (11)   |                                 |                    | 2             |                                 |                    | (8)           |                                 |                    | 17            |
| Core performance   | \$4,354                         | \$ (10)            | \$1,390       | \$2,674                         | \$ 420             | \$1,253       | \$2,501                         | \$ 544             | \$1,246       |

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations – Core Performance Measures, "Items which we exclude from GAAP measures to arrive at Core Performance measures" for an explanation of the reconciling items.

#### As Reported

#### 2014 vs. 2013

When compared to the same period last year, the increase of \$1,306 million in net sales in the year ended December 31, 2014, was due to the Acquisition of the remaining equity interests of our affiliate Samsung Corning Precision Materials, and the consolidation of this entity, which added \$1.8 billion in net sales. This impact was somewhat offset by price declines in the mid-teens in percentage terms, which more than offset an increase in volume that was slightly

more than 10% in percentage terms, and the depreciation of the Japanese yen versus the U.S. dollar, which adversely impacted net sales by \$373 million.

Net income in the Display Technologies segment increased by \$102 million, or 8%, in the year ended December 31, 2014, when compared to the same period last year. This increase was driven by the following items:

- The impact of the Acquisition of Corning Precision Materials and the resulting cost reductions gained through synergies;
- The fair value adjustment of the contingent consideration resulting from the Acquisition of Corning Precision Materials in the amount of \$194 million; and
  - Improvements in manufacturing efficiency of \$46 million.

The increase in net income was partially offset by the following items:

- The impact of price declines in the mid-teens in percentage terms that more than offset the increase in volume;
  - The absence of the \$67 million gain from our yen-denominated cash flow hedging program;
- The increase in transaction and acquisition-related costs related to the Acquisition of Corning Precision Materials in the amounts of \$73 million and \$29 million, respectively; and
  - An increase of \$34 million in restructuring, impairment and other charges.

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#### 2013 vs. 2012

In 2013, net sales in the Display Technologies segment declined in the amount of \$364 million when compared to 2012, primarily due to the impact of the depreciation of the Japanese yen versus the U.S. dollar in the amount of \$537 million and price declines in the mid-teens in percentage terms, offset somewhat by an increase in volume in the mid-twenties. The increase in volume was driven by higher sales of larger-sized LCD televisions, defined as greater than 40 inches, which increased by nearly 100% in 2013, and higher sales in mobile computing products, including tablets and smart phones. Additionally, during the fourth quarter of 2013, we renewed the agreements with key customers that we had announced in the fourth quarter of 2012, which stabilize Corning's share at each of the customers and maintain a fixed relationship between Corning's pricing and competitive pricing at that customer.

When compared to 2012, the \$335 million decrease in equity earnings from Samsung Corning Precision Materials in 2013 reflected the impact of the depreciation of the Japanese yen versus the U.S. dollar in the amount of \$201 million and price declines in the mid-teens in percentage terms. Volume remained relatively consistent in 2013 when compared to the levels in 2012. Manufacturing improvements in the amount of \$28 million were more than offset by higher taxes in the amount of \$54 million, driven by the partial expiration of a Korean tax holiday and \$28 million of asset write-offs and disposals.

When compared to 2012, the decrease in net income of \$322 million in the Display Technologies segment in 2013 reflects the impact of the depreciation of the Japanese yen versus the U.S. dollar in the amount of \$479 million and the impact of price declines in the mid-teens in percentage terms. These declines were partially offset by an increase in volume in the mid-twenties in percentage terms, the impact of gains realized on our purchased collars and average rate forwards in the amount of \$90 million and cost reduction programs.

#### Core Performance

##### 2014 vs. 2013

When compared to the same period last year, the increase in core net sales of \$1,680 million, or 63%, in the year ended December 31, 2014, was due to the Acquisition of the remaining equity interests of our affiliate Corning Precision Materials, and the consolidation of this entity, which added \$1.9 billion in net sales. This impact was somewhat offset by price declines in the mid-teens in percentage terms, which more than offset an increase in volume that was slightly more than 10% in percentage terms.

Core earnings in the Display Technologies segment increased by \$137 million, or 11%, in the year ended December 31, 2014, when compared to the same period last year. The increase was driven by the positive impact of the Acquisition of Corning Precision Materials and the resulting cost reductions gained through synergies, coupled with improvements in manufacturing efficiency of \$46 million, partially offset by the impact of price declines in the mid-teens in percentage terms that more than offset the increase in volume.

##### 2013 vs. 2012

In 2013, our Display Technologies segment regained positive momentum, as demonstrated by the increase in core net sales of 7%, when compared to core net sales in 2012, which declined by 7% when compared to 2011. During 2013, volume improvements in the mid-twenties in percentage terms more than outpaced price declines in the mid-teens. The increase in volume was driven by higher sales of larger-sized LCD televisions, defined as greater than 40 inches, which increased by nearly 100% in 2013, and higher sales in mobile computing products, including tablets and smart phones. Additionally, during the fourth quarter of 2013, we renewed the agreements with key customers that we had announced in the fourth quarter of 2012, which stabilize Corning's share at each of the customers and maintain a fixed relationship between Corning's pricing and competitive pricing at that customer.

When compared to 2012, the decrease in core equity earnings from Samsung Corning Precision Materials in 2013 reflected relatively consistent volume and price declines in the mid-teens in percentage terms. Manufacturing improvements in the amount of \$28 million were more than offset by higher taxes in the amount of \$54 million, driven by the partial expiration of a Korean tax holiday.

When compared to 2012, the increase in core earnings in the Display Technologies segment in 2013 reflects an increase in volume in the mid-twenties in percentage terms and the impact of cost reduction programs, partially offset by price declines in the mid-teens in percentage terms and the impact of lower equity earnings.

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## Other Information

The Display Technologies segment has a concentrated customer base comprised of LCD panel and color filter makers primarily located in Japan, South Korea, China and Taiwan. In 2014, three customers of the Display Technologies segment, which individually accounted for more than 10% of segment net sales, accounted for a combined 61% of total segment sales. In 2013, four customers of the Display Technologies segment, which individually accounted for more than 10% of segment net sales, accounted for a combined 94% of total segment sales. In 2012, three customers of the Display Technologies segment, which individually accounted for more than 10% of segment net sales, accounted for a combined 63% of total segment sales. Our customers face the same global economic dynamics as we do in this market. Our near-term sales and profitability would be impacted if any of these significant customers were unable to continue to purchase our products.

In addition, prior to consolidation, Samsung Corning Precision Materials' sales were concentrated across a small number of its customers. In 2013 and 2012, sales to two LCD panel makers located in South Korea accounted for approximately 93% of Samsung Corning Precision Materials sales in each of those two years.

Corning has invested to expand capacity to meet the projected demand for LCD glass substrates. In 2014, 2013 and 2012, capital spending in this segment was approximately \$400 million, \$350 million and \$850 million, respectively. We expect capital spending for 2015 to be approximately \$650 million.

### Outlook:

Corning anticipates another year of growth in the LCD glass market in 2015, with retail demand up high-single digits in percentage terms, as measured in square feet. We believe that supply chain inventory levels remain healthy and industry glass supply appears aligned with overall demand.

In the first quarter of 2015, Corning anticipates LCD glass volume in its Display Technologies segment will be consistent to down slightly on a sequential basis, following a very strong fourth quarter performance. This is in line with normal seasonality in the business. Quarterly glass price declines are expected to be moderate again.

The end market demand for LCD televisions, monitors and notebooks is dependent on consumer retail spending, among other factors. We are cautious about the potential negative impact that economic conditions, particularly a global economic recession, excess market capacity and world political tensions could have on consumer demand. While the LCD industry has grown, economic volatility along with consumer preferences for panels of differing sizes, prices, or other factors may lead to pauses in market growth. Therefore, it is possible that glass manufacturing capacity may exceed demand from time to time but we believe that we have sufficient manufacturing flexibility to adjust to fluctuations in demand. We may incur further charges in this segment to reduce our workforce and consolidate capacity. In addition, changes in foreign exchange rates, principally the Japanese yen, will continue to impact the sales and profitability of this segment. In order to mitigate this risk, Corning entered into a series of foreign exchange contracts to hedge our exposure to movements in the Japanese yen and its impact on our earnings.

## Optical Communications

(in millions)

| As Reported     | 2014     | 2013     | 2012     | % change  |           |
|-----------------|----------|----------|----------|-----------|-----------|
|                 |          |          |          | 14 vs. 13 | 13 vs. 12 |
| Net sales:      |          |          |          |           |           |
| Carrier network | \$ 2,036 | \$ 1,782 | \$ 1,619 | 14        | 10        |

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|                    |          |          |          |    |    |
|--------------------|----------|----------|----------|----|----|
| Enterprise network | 616      | 544      | 511      | 13 | 6  |
| Total net sales    | \$ 2,652 | \$ 2,326 | \$ 2,130 | 14 | 9  |
| Net income         | \$ 205   | \$ 199   | \$ 146   | 3  | 36 |

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(in millions)

| Core Performance   | 2014     | 2013     | 2012     | % change  |           |
|--------------------|----------|----------|----------|-----------|-----------|
|                    |          |          |          | 14 vs. 13 | 13 vs. 12 |
| Net sales:         |          |          |          |           |           |
| Carrier network    | \$ 2,036 | \$ 1,782 | \$ 1,619 | 14        | 10        |
| Enterprise network | 616      | 544      | 511      | 13        | 6         |
| Total net sales    | \$ 2,652 | \$ 2,326 | \$ 2,130 | 14        | 9         |
| Net income         | \$ 231   | \$ 196   | \$ 137   | 18        | 43        |

The following table reconciles the non-GAAP financial measures for the Optical Communications segment with our financial statements presented in accordance with GAAP (in millions).

| (in millions)                                    | Year ended<br>December 31, 2014 |               | Year ended<br>December 31, 2013 |               | Year ended<br>December 31, 2012 |               |
|--|---------------------------------|---------------|---------------------------------|---------------|---------------------------------|---------------|
|  | Sales                           | Net<br>income | Sales                           | Net<br>income | Sales                           | Net<br>income |
| As reported                                      | \$ 2,652                        | \$ 205        | \$ 2,326                        | \$ 199        | \$ 2,130                        | \$ 146        |
| Acquisition-related costs (4)                    |                                 | (2)           |                                 | 9             |                                 | 1             |
| Restructuring, impairment, and other charges (7) |                                 | 17            |                                 | 8             |                                 | 31            |
| Pension mark-to-market (11)                      |                                 | 13            |                                 | (9)           |                                 | 11            |
| Gain on change in control (12)                   |                                 |               |                                 | (11)          |                                 |               |
| Accumulated other comprehensive income (14)      |                                 |               |                                 |               |                                 | (52)          |
| Liquidation of subsidiary (8)                    |                                 | (2)           |                                 |               |                                 |               |
| Core performance                                 | \$ 2,652                        | \$ 231        | \$ 2,326                        | \$ 196        | \$ 2,130                        | \$ 137        |

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations – Core Performance Measures, "Items which we exclude from GAAP measures to arrive at Core Performance measures" for an explanation of the reconciling items.

#### As Reported

##### 2014 vs. 2013

In the twelve months ended December 31, 2014, net sales of the Optical Communications segment increased by \$326 million, or 14%, when compared to the same period in 2013, driven by a \$254 million increase in sales of our carrier network products. Specifically, the following items impacted sales within the carrier network products group in the year ended December 31, 2014:

- Higher sales of cable and hardware and equipment products primarily used in fiber-to-the-home solutions in North America and Europe, up \$113 million and \$46 million, respectively;

- The impact of a full year of sales from a small acquisition and the consolidation of an investment due to a change in control which occurred at the end of the second quarter of 2013, which added approximately \$53 million; and
- An increase of \$11 million in sales of optical fiber, driven by higher sales in North America and Europe, partially offset by a decrease in China.

Sales of enterprise network products also increased in the twelve months ended December 31, 2014, up \$72 million, when compared to the same period in 2013, due to strong sales in all regions of the world, led by an increase in sales of data center and LAN products in Europe and North America, up \$21 million and \$20 million, respectively, and an increase of \$16 million in wireless products sales.

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Net income increased by \$6 million, or 3%, in 2014, when compared to 2013. The significant increase in volume for carrier network products in North America and Europe and an increase in worldwide enterprise network product volume were somewhat offset by price declines in fiber and cable products, \$17 million of additional operating expenses driven by two small acquisitions and the absence of the inventory build we experienced in the first half of 2013. An increase in restructuring charges of \$9 million, an increase of \$22 million in the amount of the pension mark-to-market adjustment and the absence of the \$11 million gain on change in control of an equity company that occurred in the second quarter of 2013 also negatively impacted the results of this segment.

#### 2013 vs. 2012

In 2013, net sales of the Optical Communications segment increased when compared to 2012, driven by an increase of \$163 million in the carrier network market. Driving the growth in carrier network products are the following items:

- The ramp-up of the fiber-to-the-premises initiative in Australia, which increased sales by \$28 million;
  - An increase of \$23 million in sales of wireless products;
- Higher sales of cable products in North America, China and Europe, up \$52 million, \$33 million and \$26 million, respectively;
- The impact of a small acquisition and the consolidation of an investment due to a change in control, which added approximately \$53 million in 2013; and
- Offsetting the increase in sales of carrier network products in 2013 was a decline in sales of optical fiber, driven by lower demand for single-mode fiber in China, Europe and North America.

Sales in the enterprise network market increased by \$33 million in the year ended 2013, when compared to 2012, driven by higher sales of data center products in North America.

The increase in net income in 2013 when compared to 2012 reflects an increase in volume in carrier and enterprise network products, improved manufacturing performance and the implementation of strong spending controls and cost reduction initiatives, combined with an increase of \$20 million on the gain in 2013 versus a loss in 2012 on the mark-to-market of our defined benefit pension plans, a reduction of \$23 million in restructuring charges and a gain of \$11 million on the change in control of an equity company. This increase was somewhat offset by an increase in acquisition-related costs of \$8 million and lower volume in optical fiber, lower price and a less favorable mix of products sales in 2013.

Movements in foreign exchange rates did not significantly impact the results of this segment in the years ended December 31, 2014 and 2013.

#### Core Performance

##### 2014 vs. 2013

When compared to the same period last year, core earnings in the twelve months ended December 31, 2014 increased by \$35 million, or 18%, when compared to 2013. The significant increase in volume for carrier network products in North America and Europe and an increase in worldwide enterprise network product volume were somewhat offset by price declines in fiber and cable products, \$17 million of additional operating expenses driven by two small acquisitions and the absence of the inventory build we experienced in the first half of 2013.

##### 2013 vs. 2012

The increase in core earnings in 2013 when compared to 2012 reflects an increase in volume in carrier and enterprise network products, improved manufacturing performance and the implementation of strong spending controls and cost reduction initiatives, offset by lower volume in optical fiber, lower price and a less favorable mix of products sales in

2013. Movements in foreign exchange rates did not significantly impact the results of this segment.

The Optical Communications segment has a concentrated customer base. In the years ended December 31, 2014, 2013 and 2012, one customer, which individually accounted for more than 10% of segment net sales, accounted for 11%, 10% and 12%, respectively, of total segment net sales.

**Outlook:**

Optical Communications segment sales in the first quarter of 2015 are expected to increase by more than 10 percent when compared to the first quarter of 2014, as the segment continues its strong overall performance.

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## Environmental Technologies

(in millions)

| As Reported     | 2014     | 2013   | 2012   | % change  |           |
|-----------------|----------|--------|--------|-----------|-----------|
|                 |          |        |        | 14 vs. 13 | 13 vs. 12 |
| Net sales:      |          |        |        |           |           |
| Automotive      | \$ 528   | \$ 485 | \$ 486 | 9         |           |
| Diesel          | 564      | 434    | 478    | 30        | (9)       |
| Total net sales | \$ 1,092 | \$ 919 | \$ 964 | 19        | (5)       |
| Net income      |          |        |        |           |           |
|                 | \$ 182   | \$ 132 | \$ 112 | 38        | 18        |

(in millions)

| Core Performance | 2014     | 2013   | 2012   | % change  |           |
|------------------|----------|--------|--------|-----------|-----------|
|                  |          |        |        | 14 vs. 13 | 13 vs. 12 |
| Net sales:       |          |        |        |           |           |
| Automotive       | \$ 528   | \$ 485 | \$ 486 | 9         |           |
| Diesel           | 564      | 434    | 478    | 30        | (9)       |
| Total net sales  | \$ 1,092 | \$ 919 | \$ 964 | 19        | (5)       |
| Net income       |          |        |        |           |           |
|                  | \$ 187   | \$ 130 | \$ 119 | 44        | 9         |

The following table reconciles the non-GAAP financial measures for the Environmental Technologies segment with our financial statements presented in accordance with GAAP (in millions).

| (in millions)                                       | Year ended<br>December 31, 2014 |               | Year ended<br>December 31, 2013 |               | Year ended<br>December 31, 2012 |               |
|---|---------------------------------|---------------|---------------------------------|---------------|---------------------------------|---------------|
|   | Sales                           | Net<br>income | Sales                           | Net<br>income | Sales                           | Net<br>income |
|   | As reported                     | \$ 1,092      | \$ 182                          | \$ 919        | \$ 132                          | \$ 964        |
| Restructuring, impairment, and<br>other charges (7) |                                 |               |                                 | 1             |                                 | 2             |
| Pension mark-to-market (11)                         |                                 | 5             |                                 | (3)           |                                 | 5             |
| Core performance                                    | \$ 1,092                        | \$ 187        | \$ 919                          | \$ 130        | \$ 964                          | \$ 119        |

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations – Core Performance Measures, "Items which we exclude from GAAP measures to arrive at Core Performance measures" for an explanation of the reconciling items.

## As Reported

## 2014 vs. 2013

In the twelve months ended December 31, 2014, net sales of this segment increased by \$173 million, or 19%, when compared to the same period in 2013, driven by higher sales across all product lines. Driving the increase was higher demand for our heavy duty diesel products propelled by new governmental regulations in Europe and China and increased demand for Class 8 vehicles in North America. Sales of light-duty diesel products also improved due to higher volume in Europe. Automotive substrate product sales increased due to higher demand in Europe and China.

When compared to the same period last year, net income in the twelve months ended December 31, 2014 improved significantly, up \$50 million, or 38%, driven by improvements in manufacturing efficiency and strong volume gains across both automotive and diesel product lines. Improving market conditions for heavy-duty diesel products in Europe, China and North America and higher European sales of light-duty diesel products, combined with an increase in automotive vehicle builds, drove the increase. Higher costs associated with facility expansion projects and an increase in the pension mark-to-market adjustment somewhat offset the increase in net income.

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2013 vs. 2012

When compared to 2012, net sales in the Environmental Technologies segment decreased in 2013, due to lower sales of light-duty diesel filters and heavy-duty diesel products. Demand for light-duty diesel vehicles which use our filters declined due to weak economic conditions in Europe. Heavy-duty diesel product sales were lower due to the decline in the production of Class 8 vehicles in North America. Net sales of this segment in 2013 were not materially impacted by movements in foreign exchange rates when compared to 2012.

Although net sales declined in 2013 when compared to 2012, net income increased by 18%, driven by significantly improved manufacturing performance for our automotive and heavy-duty diesel products, and lower operating expenses. Net income also included an increase of \$8 million due to the positive change in the mark-to-market of our defined benefit pension plans.

Movements in foreign exchange rates did not significantly impact the results of this segment in the years ended December 31, 2014 and 2013.

Core Performance

2014 vs. 2013

When compared to the same period last year, core earnings in the twelve months ended December 31, 2014 increased by \$57 million, or 44%, driven by improvements in manufacturing efficiency and strong volume gains across both automotive and diesel product lines. Improving market conditions for heavy-duty diesel products in Europe, China and North America and higher European sales of light-duty diesel products, combined with an increase in automotive vehicle builds, drove the increase. Higher costs associated with facility expansion projects somewhat offset the increase in net income

2013 vs. 2012

Although net sales declined in 2013 when compared to 2012, core earnings increased by 9%, driven by significantly improved manufacturing performance for our automotive and heavy-duty diesel products, and lower operating expenses.

The Environmental Technologies segment sells to a concentrated customer base of catalyzer and emission control systems manufacturers, who then sell to automotive and diesel engine manufacturers. Although our sales are to the emission control systems manufacturers, the use of our substrates and filters is generally required by the specifications of the automotive and diesel vehicle or engine manufacturers. For 2014, 2013, and 2012, net sales to three customers, which individually accounted for more than 10% of segment sales, accounted for 88%, 87% and 86%, respectively, of total segment sales. While we are not aware of any significant customer credit issues with our direct customers, our near-term sales and profitability would be impacted if any individual customers were unable to continue to purchase our products.

Outlook:

We anticipate that Environmental Technologies sales in the first quarter of 2015 will be consistent when compared to the first quarter of 2014.

Specialty Materials

(in millions)

| As Reported | 2014 | 2013 | 2012 | % change  |           |
|-------------|------|------|------|-----------|-----------|
|             |      |      |      | 14 vs. 13 | 13 vs. 12 |

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|            |          |          |          |      |      |
|------------|----------|----------|----------|------|------|
| Net sales  | \$ 1,205 | \$ 1,170 | \$ 1,346 | 3    | (13) |
| Net income | \$ 144   | \$ 187   | \$ 137   | (23) | 36   |

(in millions)

| Core Performance | 2014     | 2013     | 2012     | % change  |           |
|------------------|----------|----------|----------|-----------|-----------|
|                  |          |          |          | 14 vs. 13 | 13 vs. 12 |
| Net sales        | \$ 1,205 | \$ 1,170 | \$ 1,346 | 3         | (13)      |
| Net income       | \$ 162   | \$ 196   | \$ 201   | (17)      | (2)       |

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The following table reconciles the non-GAAP financial measures for the Specialty Materials segment with our financial statements presented in accordance with GAAP (in millions).

| (in millions)  | Year ended<br>December 31, 2014 |               | Year ended<br>December 31, 2013 |               | Year ended<br>December 31, 2012 |               |
|--|---------------------------------|---------------|---------------------------------|---------------|---------------------------------|---------------|
|  | Sales                           | Net<br>income | Sales                           | Net<br>income | Sales                           | Net<br>income |
| As reported  | \$ 1,205                        | \$ 144        | \$ 1,170                        | \$ 187        | \$ 1,346                        | \$ 137        |
| Constant-yen (1)                                       |                                 | (7)           |                                 | (2)           |                                 | 25            |
| Purchased collars and average<br>forward contracts (2) |                                 | 14            |                                 |               |                                 |               |
| Acquisition-related costs (4)                          |                                 | (1)           |                                 | 1             |                                 |               |
| Restructuring, impairment, and<br>other charges (7)    |                                 | 12            |                                 | 12            |                                 | 33            |
| Pension mark-to-market (11)                            |                                 |               |                                 | (2)           |                                 | 6             |
| Core performance                                       | \$ 1,205                        | \$ 162        | \$ 1,170                        | \$ 196        | \$ 1,346                        | \$ 201        |

See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations – Core Performance Measures, “Items which we exclude from GAAP measures to arrive at Core Performance measures” for an explanation of the reconciling items.

#### As Reported

##### 2014 vs. 2013

The Specialty Materials segment manufactures products that provide more than 150 material formulations for glass, glass ceramics and fluoride crystals to meet demand for unique customer needs. Consequently, this segment operates in a wide variety of commercial and industrial markets that include display optics and components, semiconductor optics components, aerospace and defense, astronomy, ophthalmic products, telecommunications components and a protective cover glass that is optimized for portable display devices.

Net sales for the twelve months ended December 31, 2014 in the Specialty Materials segment increased by \$35 million, or 3%, when compared to the same period in 2013, driven by higher sales of our advanced optics and commercial optics products. Although Corning Gorilla Glass volume increased by 23%, net sales remained consistent with the prior year, driven by an unfavorable shift in product mix and price declines. Additionally, although volume increased in 2014 when compared to 2013, the growth did not meet our expectations due to the flat market for tablets.

When compared to the same period last year, the decrease in net income for the twelve months ended December 31, 2014 was driven by the absence of the inventory build we experienced in the first half of 2013, the write-off a trade receivable balance in the amount of \$8 million and price declines for Corning Gorilla Glass. Partially offsetting the decrease was an increase in volume for both Corning Gorilla Glass and advanced optics products and the impact of costs reductions as a result of restructuring actions.

##### 2013 vs. 2012

Net sales for the year ended December 31, 2013 decreased in the Specialty Materials segment when compared to 2012, due to a 17% decline in sales of Corning Gorilla Glass. Although retail demand for products using our Corning Gorilla Glass has increased in 2013, supply chain variability, during which we experienced robust sales of this glass in the latter half of 2012, resulted in a supply chain contraction throughout 2013. Advanced optics products sales increased slightly in the year ended December 31, 2013, driven by the beginning of a business recovery.

Although net sales declined by 13% in the year ended December 31, 2013, net income increased by 36%, when compared to 2012, due to strong cost controls, lower restructuring charges, manufacturing cost reduction initiatives and the beginning of the advanced optics products business recovery, which partially offset the lower sales of Corning Gorilla Glass. The depreciation of the Japanese yen versus the U.S. dollar positively impacted net income by approximately \$27 million in the year ended December 31, 2013, when compared to the same period in the prior year.

Movements in foreign exchange rates did not significantly impact the results of this segment in the years ended December 31, 2014 and 2013.

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## Core Performance

## 2014 vs. 2013

When compared to the same period last year, the decrease in core earnings in the twelve months ended December 31, 2014 was driven by the absence of the inventory build we experienced in the first half of 2013, price declines for Corning Gorilla Glass and higher production costs. Partially offsetting the decrease was an increase in volume for both Corning Gorilla Glass and advanced optics products and the impact of costs reductions as a result of restructuring actions.

## 2013 vs. 2012

Although core net sales declined by 13% in the year ended December 31, 2013, core earnings decreased by only 2%, when compared to 2012, due to strong cost controls, manufacturing cost reduction initiatives and the beginning of the advanced optics products business recovery, which partially offset the lower sales of Corning Gorilla Glass.

For 2014 and 2013, three customers of the Specialty Materials segment, which individually accounted for more than 10% of segment sales, accounted for 51% and 47%, respectively, of total segment sales. For 2012, two customers of the Specialty Materials segment, which individually accounted for more than 10% of segment sales, accounted for 54% of total segment sales.

## Outlook:

In the first quarter of 2015, Specialty Materials segment sales are expected to increase by approximately 10% when compared to the first quarter of 2014, as a result of increased Gorilla Glass demand for products launched in the third and fourth quarters of 2014.

## Life Sciences

(in millions)

| As Reported | 2014   | 2013   | 2012   | % change  |           |
|-------------|--------|--------|--------|-----------|-----------|
|             |        |        |        | 14 vs. 13 | 13 vs. 12 |
| Net sales   | \$ 862 | \$ 851 | \$ 657 | 1         | 30        |
| Net income  | \$ 71  | \$ 71  | \$ 28  |           | 154       |

(in millions)

| Core Performance | 2014   | 2013   | 2012   | % change  |           |
|------------------|--------|--------|--------|-----------|-----------|
|                  |        |        |        | 14 vs. 13 | 13 vs. 12 |
| Net sales        | \$ 862 | \$ 851 | \$ 657 | 1         | 30        |
| Net income       | \$ 87  | \$ 92  | \$ 48  | (5)       | 92        |

The following table reconciles the non-GAAP financial measures for the Life Sciences segment with our financial statements presented in accordance with GAAP (in millions).

| (in millions)                 | Year ended<br>December 31, 2014 |        | Year ended<br>December 31, 2013 |        | Year ended<br>December 31, 2012 |        |
|-------------------------------|---------------------------------|--------|---------------------------------|--------|---------------------------------|--------|
|                               | Net                             |        | Net                             |        | Net                             |        |
|                               | Sales                           | income | Sales                           | income | Sales                           | income |
| As reported                   | \$ 862                          | \$ 71  | \$ 851                          | \$ 71  | \$ 657                          | \$ 28  |
| Acquisition-related costs (4) |                                 | 14     |                                 | 21     |                                 | 15     |

|  |        |       |        |       |        |       |
|--|--------|-------|--------|-------|--------|-------|
| Restructuring, impairment, and other charges (7) |        | 2     |        | 3     |        | 1     |
| Pension mark-to-market (11)                      |        |       |        | (3)   |        | 4     |
| Core performance                                 | \$ 862 | \$ 87 | \$ 851 | \$ 92 | \$ 657 | \$ 48 |

See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations – Core Performance Measures, “Items which we exclude from GAAP measures to arrive at Core Performance measures” for an explanation of the reconciling items.

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As Reported

2014 vs. 2013

Net sales for the year ended December 31, 2014 increased by \$11 million when compared to the same period in the prior year. Higher sales in North America and China, up \$12 million and \$5 million, respectively, were offset slightly by lower sales in Australia. Net income remained consistent when compared to the same period in 2013, driven by less favorable product mix and higher operating expenses which were offset by higher volume and lower acquisition-related costs due to the completion of the integration of Discovery Labware business.

2013 vs. 2012

Net sales for the year ended December 31, 2013 increased when compared to the same period last year, due to the impact of the acquisition of the Discovery Labware business completed in the fourth quarter of 2012, which increased net sales by \$192 million. Net sales of the segment's existing lines remained relatively consistent.

When compared to the same period in 2012, net income in the year ended December 31, 2013 increased substantially, driven by a \$38 million improvement attributable to the impact of the Discovery Labware acquisition and the positive impact of \$7 million on the change in the mark-to-market of our defined benefit pension plans. Offsetting the gains from Discovery Labware and the pension mark-to-market were an increase in acquisition-related costs of \$6 million and higher restructuring charges.

Movements in foreign exchange rates did not significantly impact the results of this segment in the years ended December 31, 2014 and 2013.

Core Performance

2014 vs. 2013

Core earnings decreased slightly when compared to the same period in 2013, driven by less favorable product mix, offset somewhat by higher volume.

2013 vs. 2012

When compared to the same period in 2012, core earnings in the year ended December 31, 2013 increased substantially, driven by the impact of the Discovery Labware acquisition in the amount of \$38 million. Movements in foreign exchange rates did not significantly impact the results of this segment in the year ended December 31, 2013.

For 2014, 2013 and 2012, two customers in the Life Sciences segment, which individually accounted for more than 10% of total segment net sales, collectively accounted for 45%, 44% and 38%, respectively, of total segment sales.

Outlook:

Sales in the Life Sciences segment are expected to remain relatively consistent in the first quarter of 2015, when compared to the same period in 2014.

All Other

(in millions)

| As Reported | 2014  | 2013 | 2012 | % change  |           |
|-------------|-------|------|------|-----------|-----------|
|             |       |      |      | 14 vs. 13 | 13 vs. 12 |
| Net sales   | \$ 53 | \$ 8 | \$ 6 | 563       | 33        |

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|  |          |          |         |    |     |
|--|----------|----------|---------|----|-----|
| Research, development and engineering expenses | \$ 177   | \$ 116   | \$ 123  | 53 | (6) |
| Equity earnings of affiliated companies        | \$ 18    | \$ (24)  | \$ 17   | *  | *   |
| Net loss                                       | \$ (196) | \$ (163) | \$ (98) | 20 | 66  |

\* Percent change not meaningful

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(in millions)

| Core Performance                               | 2014     | 2013     | 2012    | % change  |           |
|--|----------|----------|---------|-----------|-----------|
|  |          |          |         | 14 vs. 13 | 13 vs. 12 |
| Net sales                                      | \$ 53    | \$ 8     | \$ 6    | 563       | 33        |
| Research, development and engineering expenses | \$ 177   | \$ 116   | \$ 123  | 53        | (6)       |
| Equity earnings of affiliated companies        | \$ 18    | \$ 12    | \$ 17   | 50        | (29)      |
| Net loss                                       | \$ (193) | \$ (122) | \$ (98) | 58        | 24        |

The following table reconciles the non-GAAP financial measures for the All Other segment with our financial statements presented in accordance with GAAP (in millions).

| (in millions)                                       | Year ended<br>December 31, 2014 |                 |            | Year ended<br>December 31, 2013 |                 |            |
|---|---------------------------------|-----------------|------------|---------------------------------|-----------------|------------|
|   | Sales                           | Equity earnings | Net income | Sales                           | Equity earnings | Net income |
| As reported   | \$ 53                           | \$ 18           | \$ (196)   | \$ 8                            | \$ (24)         | \$ (163)   |
| Purchased collars and average forward contracts (2) |                                 |                 | 2          |                                 |                 |            |
| Restructuring, impairment, and other charges (7)    |                                 |                 |            |                                 |                 |            |
| Pension mark-to-market (11)                         |                                 |                 | 1          |                                 | 36              | 41         |
| Core performance                                    | \$ 53                           | \$ 18           | \$ (193)   | \$ 8                            | \$ 12           | \$ (122)   |

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations – Core Performance Measures, "Items which we exclude from GAAP measures to arrive at Core Performance measures" for an explanation of the reconciling items.

All other segments that do not meet the quantitative threshold for separate reporting have been grouped as "All Other." This group is primarily comprised of the results of Corning Precision Materials' non-LCD business and new product lines and development projects that involve the use of various technologies for new products such as advanced flow reactors and adjacency businesses in pursuit of thin, strong glass. This segment also includes results for certain corporate investments such as Eurokera and Keraglass equity affiliates, which manufacture smooth cooktop glass/ceramic products.

#### 2014 vs. 2013

The increase in net sales of this segment in the year ended December 31, 2014 reflects the consolidation of the Corning Precision Materials' non-LCD business as a result of the Acquisition. The increase in the net loss of this segment reflects higher spending for development projects which were not part of the segment in the year ended December 31, 2013.

#### 2013 vs. 2012

The increase in segment net loss in 2013 when compared to 2012 was driven by the write-down of assets to their fair value in the amount of \$36 million in Samsung Corning Precision Materials' non-LCD glass business, the absence of the 2012 gain on the sale of assets in Samsung Corning Precision Materials' non-LCD glass business, and restructuring costs of \$5 million associated with our global restructuring program implemented in the fourth quarter of 2013, partially offset by lower research, development and engineering expenses on development projects. The increase in

core net loss in 2013 reflects the absence of the 2012 gain on the sale of assets in Samsung Corning Precision Materials' non-LCD glass business and a decline in research, development and engineering expenses for development projects.

## LIQUIDITY AND CAPITAL RESOURCES

### Financing and Capital Structure

The following items impacted Corning's financing and capital structure during 2014 and 2013:

#### 2014

- In the third quarter of 2014, we amended and restated our existing revolving credit facility. The amended facility provides a \$2 billion unsecured multi-currency line of credit and expires on September 30, 2019. At December 31, 2014, there were no outstanding amounts under this credit facility. The facility includes affirmative and negative covenants that Corning must comply with, including a leverage (debt to capital ratio) financial covenant. As of December 31, 2014, we were in compliance with all of the covenants.

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## 2013

- In the first quarter of 2013, we amended and restated our then-existing revolving credit facility. The 2013 amended facility provided a \$1 billion unsecured multi-currency line of credit that would have expired in March 2018. This facility was terminated when we entered into the amended and restated \$2 billion facility in the third quarter of 2014.
- In the first quarter of 2013, Corning repaid the aggregate principal amount and accrued interest outstanding on the credit facility entered into in the second quarter of 2011 that allowed Corning to borrow up to Chinese renminbi (RMB) 4 billion. The total amount repaid was approximately \$500 million. Upon repayment, this facility was terminated.
- In the second quarter of 2013, the Company established a commercial paper program on a private placement basis, pursuant to which we may issue short-term, unsecured commercial paper notes up to a maximum aggregate principal amount outstanding at any time of \$1 billion. Under this program, the Company may issue the notes from time to time and will use the proceeds for general corporate purposes. The maturities of the notes will vary, but may not exceed 390 days from the date of issue. The interest rates will vary based on market conditions and the ratings assigned to the notes by credit rating agencies at the time of issuance. The Company's revolving credit facility is available to support obligations under the commercial paper program, if needed. At December 31, 2013, we did not have any outstanding commercial paper.
- In the fourth quarter of 2013, we issued \$250 million of 3.70% senior unsecured notes that mature on November 15, 2023. The net proceeds of approximately \$248 million were used for general corporate purposes.
- In the fourth quarter of 2013, we recorded a financing obligation in the approximate amount of \$230 million for a new LCD glass substrate facility in China.

## Common Stock Dividends

On December 3, 2014, Corning's Board of Directors declared a 20% increase in the quarterly common stock dividend, which increased the quarterly dividend from \$0.10 to \$0.12 per common share, beginning with the dividend to be paid in the first quarter of 2015. This increase marks the fourth dividend increase since October 2011.

## Fixed Rate Cumulative Convertible Preferred Stock, Series A

On January 15, 2014, Corning designated a new series of its preferred stock as Fixed Rate Cumulative Convertible Preferred Stock, Series A, par value \$100 per share, and issued 1,900 shares of Preferred Stock at an issue price of \$1 million per share, for an aggregate issue price of \$1.9 billion, to Samsung Display in connection with the Acquisition of its equity interests in Samsung Corning Precision Materials. Corning also issued to Samsung Display an additional 400 shares of Fixed Rate Cumulative Convertible Preferred Stock at closing, for an aggregate issue price of \$400 million in cash.

Dividends on the Preferred Stock are cumulative and accrue at the annual rate of 4.25% on the per share issue price of \$1 million. The dividends are payable quarterly as and when declared by the Company's Board of Directors. The Preferred Stock ranks senior to our common stock with respect to payment of dividends and rights upon liquidation. The Preferred Stock is not redeemable except in the case of a certain deemed liquidation event, the occurrence of which is under the control of the Company. The Preferred Stock is convertible at the option of the holder and the Company upon certain events, at a conversion rate of 50,000 shares of Corning's common stock per one share of Preferred Stock, subject to certain anti-dilution provisions. As of December 31, 2014, the Preferred Stock has not been converted, and none of the anti-dilution provisions have been triggered. Following the seventh anniversary of the closing of the Acquisition, the Preferred Stock will be convertible, in whole or in part, at the option of the holder. The Company has the right, at its option, to cause some or all of the shares of Preferred Stock to be converted into Common Stock, if, for 25 trading days (whether or not consecutive) within any period of 40 consecutive trading days, the closing price of Common Stock exceeds \$35 per share. If the aforementioned right becomes exercisable

before the seventh anniversary of the closing, the Company must first obtain the written approval of the holders of a majority of the Preferred Stock before exercising its conversion right. The Preferred Stock does not have any voting rights except as may be required by law.

#### Capital Spending

Capital spending totaled \$1.1 billion in 2014, slightly above the amount spent in 2013. Spending in 2014 was driven primarily by the Display Technologies segment, and focused on finishing line optimization and tank rebuilds. We expect our 2015 capital expenditures to be approximately \$1.3 billion to \$1.4 billion. Approximately \$650 million will be allocated to our Display Technologies segment.

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## Cash Flows

Summary of cash flow data (in millions):

|   | Years ended December 31, |            |            |
|---|--------------------------|------------|------------|
|   | 2014                     | 2013       | 2012       |
| Net cash provided by operating activities | \$ 4,709                 | \$ 2,787   | \$ 3,206   |
| Net cash used in investing activities     | \$ (962)                 | \$ (1,004) | \$ (2,628) |
| Net cash used in financing activities     | \$ (2,586)               | \$ (2,063) | \$ (115)   |

## 2014 vs. 2013

Net cash provided by operating activities increased significantly in the year ended December 31, 2014, when compared to the same period last year, due to a dividend of approximately \$1.6 billion received from Samsung Corning Precision Materials, an increase in net income of \$511 million and the cash inflows from inventory movements. Although net inventory increased by \$52 million due to the Acquisition, which added \$121 million, this inventory was acquired through the issuance of preferred stock. Cash outflows for inventory declined by \$120 million in the base Display Technologies and Specialty Materials segments in 2014 when compared to 2013, offset somewhat by an increase of approximately \$50 million, driven by spending for new business development, and increases in the Optical Communications and Life Sciences segments.

Net cash used in investing activities decreased slightly in the year ended December 31, 2014, when compared to the same period last year, driven by a decrease in investments in unconsolidated entities, the realized gains on our yen-denominated purchased collars and the absence of the premium paid for our yen-denominated purchased collars in 2013, offset by an increase in short-term investments.

Net cash used in financing activities in the year ended December 31, 2014 increased when compared to the same period last year, driven by our share repurchase programs and the absence of the proceeds received in 2013 from the issuance of long-term debt, somewhat offset by cash received from the issuance of preferred stock and the absence of the retirement of long-term debt in the first quarter of 2013.

## 2013 vs. 2012

Net cash provided by operating activities decreased in the year ended December 31, 2013, when compared to the same period last year, largely due to a decrease in dividends received from affiliated companies and the unfavorable impact of changes in working capital, driven by the following items:

- Higher incentive compensation payments of approximately \$100 million, driven by the pay-out of the initial year of the executive cash-based performance plan and an increase in performance-driven incentives;
- An increase in foreign tax payments in the amount of \$114 million, driven by higher withholding tax in Taiwan; and
- An increase in fiber and cable inventory in the Optical Communications segment in the amount of \$111 million, due to a decline in sales in China, Europe and North America.

A decline in accounts receivable in the Display Technologies, Optical Communications and Specialty Materials segments somewhat offset these unfavorable impacts.

Net cash used in investing activities declined in 2013, when compared to 2012, due to a decrease in capital spending, lower business acquisition spending and the liquidation of short-term investments, offset by the premium related to our purchased collars.

Net cash used in financing activities increased in 2013 when compared to the same period last year, driven primarily by the absence of the issuance of long-term debt in the first quarter of 2012, higher share repurchases, the retirement of long-term debt in the first quarter of 2013, and higher dividend payments.

#### Defined Benefit Pension Plans

We have defined benefit pension plans covering certain domestic and international employees. Our largest single pension plan is Corning's U.S. qualified plan. At December 31, 2014, this plan accounted for 77% of our consolidated defined benefit pension plans' projected benefit obligation and 86% of the related plans' assets.

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We have historically contributed to the U.S. qualified pension plan on an annual basis in excess of the IRS minimum requirements. In 2014, we made voluntary cash contributions of \$85 million to our domestic defined benefit pension plan and \$45 million to our international pension plans. In 2013, we did not contribute to our domestic defined benefit pension plan and contributed \$5 million to our international pension plans. In 2012, we made voluntary cash contributions of \$75 million to our domestic defined benefit pension plan and \$30 million to our international pension plans. Although we will not be subject to any mandatory contributions in 2015, we anticipate making voluntary cash contributions of up to \$65 million to our U.S. pension plan and up to \$28 million to our international pension plans in 2015.

Refer to Note 13 (Employee Retirement Plans) to the Consolidated Financial Statements for additional information.

### Restructuring

For the year ended December 31, 2014, we recorded charges of \$71 million for workforce reductions, asset disposals and write-offs, and exit costs for restructuring activities with total cash expenditures estimated to be \$51 million.

In the fourth quarter of 2013, Corning implemented a global restructuring plan within several of our segments, consisting of workforce reductions, asset disposals and write-offs, and exit costs. We recorded charges of \$67 million associated with these actions, with total cash expenditures expected to be approximately \$40 million.

In 2012, we recorded a charge of \$89 million associated with a corporate-wide restructuring plan to reduce our global workforce in response to anticipated lower sales in 2013. The charge included costs for workforce reductions, asset disposals and write-offs, and exit costs. Total cash expenditures associated with these actions are expected to be approximately \$49 million primarily related to termination benefits, and were largely finalized in 2013.

During 2014, 2013 and 2012, we made payments of \$39 million, \$35 million and \$15 million, respectively, related to employee severance and other exit costs resulting from restructuring actions. Refer to Note 2 (Restructuring, Impairment and Other Charges) to the Consolidated Financial Statements for additional information.

### Key Balance Sheet Data

Balance sheet and working capital measures are provided in the following table (in millions):

|  | December 31, |          |
|--|--------------|----------|
|  | 2014         | 2013     |
| Working capital                              | \$ 7,914     | \$ 7,145 |
| Current ratio                                | 4.4:1        | 5.1:1    |
| Trade accounts receivable, net of allowances | \$ 1,501     | \$ 1,253 |
| Days sales outstanding                       | 56           | 58       |
| Inventories                                  | \$ 1,322     | \$ 1,270 |
| Inventory turns                              | 4.2          | 3.6      |
| Days payable outstanding (1)                 | 41           | 47       |
| Long-term debt                               | \$ 3,227     | \$ 3,272 |
| Total debt to total capital                  | 13%          | 13%      |

(1) Includes trade payables only.

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## Credit Ratings

As of February 13, 2015, our credit ratings were as follows:

| RATING AGENCY     | Rating<br>long-term debt | Outlook<br>last update       |
|-------------------|--------------------------|------------------------------|
| Fitch             | A-                       | Stable<br>May 17, 2011       |
| Standard & Poor's | A-                       | Stable<br>December 16, 2013  |
| Moody's           | A3                       | Stable<br>September 12, 2011 |

## Management Assessment of Liquidity

We ended the fourth quarter of 2014 with approximately \$6.1 billion of cash, cash equivalents and short-term investments. The Company has adequate sources of liquidity and we are confident in our ability to generate cash to meet existing or reasonably likely future cash requirements. Our cash, cash equivalents, and short-term investments are held in various locations throughout the world and are generally unrestricted. Although approximately 68% of the consolidated amount was held outside of the U.S. at December 31, 2014, we have sufficient U.S. liquidity, including borrowing capacity, to fund foreseeable U.S. cash needs without requiring the repatriation of foreign cash. We utilize a variety of tax effective financing strategies to ensure that our worldwide cash is available in the locations in which it is needed.

From time to time, we may issue debt, the proceeds of which may be used for general corporate purposes or to refinance certain debt maturities. Additionally, to manage interest rate exposure, the Company, from time to time, enters into interest rate swap agreements. In the fourth quarter of 2014, the Company entered into interest rate swap agreements to hedge against the variability in cash flows due to changes in the benchmark interest rate related to an anticipated issuance. The instruments were designated as cash flow hedges.

On June 24, 2013, the Company established a commercial paper program on a private placement basis, pursuant to which we may issue short-term, unsecured commercial paper notes up to a maximum aggregate principal amount outstanding at any time of \$1 billion. Under this program, the Company may issue the notes from time to time and will use the proceeds for general corporate purposes. The maturities of the notes will vary, but may not exceed 390 days from the date of issue. The interest rates will vary based on market conditions and the ratings assigned to the notes by credit rating agencies at the time of issuance. The Company's revolving credit facility is available to support obligations under the commercial paper program, if needed. At December 31, 2014, we did not have any outstanding commercial paper under this program.

## Share Repurchase Programs

On October 31, 2013, as part of the share repurchase program announced on April 24, 2013 (the "2013 Repurchase Program"), Corning entered into an accelerated share repurchase ("ASR") agreement with JP Morgan Chase Bank, National Association, London Branch ("JPMC"). Under the ASR agreement with JPMC, Corning agreed to purchase \$1 billion of its common stock, in total, with an initial delivery by JPMC of 47.1 million shares based on the current market price, and payment of \$1 billion made by Corning to JPMC. The payment to JPMC was recorded as a

reduction to shareholders' equity, consisting of an \$800 million increase in treasury stock, which reflects the value of the initial 47.1 million shares received upon execution, and a \$200 million decrease in other-paid-in capital, which reflects the value of the stock held back by JPMC pending final settlement. On January 28, 2014, the ASR agreement with JPMC was completed. Corning received an additional 10.5 million shares on January 31, 2014 to settle the ASR agreement. In total, Corning purchased 57.6 million shares based on the average daily volume weighted-average price of Corning's common stock during the term of the ASR agreement with JPMC, less a discount.

In addition to the shares repurchased through the ASR agreement, we repurchased 61.3 million shares of common stock on the open market for approximately \$1.0 billion, as part of the 2013 Repurchase Program. This program was executed between the second quarter of 2013 and the first quarter of 2014, with a total of 118.9 million shares repurchased for approximately \$2 billion.

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On March 4, 2014, as part of the \$2 billion share repurchase program announced on October 22, 2013 and made effective concurrent with the closing of Corning's Acquisition of Samsung Corning Precision Materials on January 15, 2014 (the "2014 Repurchase Program"), Corning entered into an ASR agreement with Citibank N.A. ("Citi"). Under the ASR agreement with Citi, Corning agreed to purchase \$1.25 billion of its common stock, with an initial delivery by Citi of 52.5 million shares based on the current market price, and payment of \$1.25 billion made by Corning to Citi. On May 28, 2014, the ASR agreement with Citi was completed, and Corning received an additional 8.7 million shares to settle the ASR agreement. In total, Corning repurchased 61.2 million shares based on the average daily volume weighted-average price of Corning's common stock during the term of the ASR agreement with Citi, less a discount.

In addition to the shares repurchased through the ASR agreement, in the year ended December 31, 2014, we repurchased 36.9 million shares of common stock on the open market for approximately \$750 million, as part of the 2014 Repurchase Program. This program was completed in the fourth quarter of 2014, with a total of 98.2 million shares repurchased for approximately \$2 billion.

On December 3, 2014, Corning's Board of Directors authorized the repurchase of up to \$1.5 billion shares of common stock between the date of announcement and December 31, 2016. No shares were repurchased under this program between the date of authorization and December 31, 2014.

#### Other

We complete comprehensive reviews of our significant customers and their creditworthiness by analyzing their financial strength at least annually or more frequently for customers where we have identified a measure of increased risk. We closely monitor payments and developments which may signal possible customer credit issues. We currently have not identified any potential material impact on our liquidity resulting from customer credit issues.

Our major source of funding for 2015 and beyond will be our operating cash flow and our existing balances of cash, cash equivalents, short-term investments and proceeds from any issuances of debt. We believe we have sufficient liquidity for the next several years to fund operations, share repurchase programs, acquisitions, the asbestos litigation, research and development, capital expenditures, scheduled debt repayments and dividend payments.

Corning also has access to a \$2 billion unsecured committed revolving credit facility. This credit facility includes a leverage ratio financial covenant. The required leverage ratio, which measures debt to total capital, is a maximum of 50%. At December 31, 2014, our leverage using this measure was 13% and we are in compliance with the financial covenant.

Our debt instruments contain customary event of default provisions, which allow the lenders the option of accelerating all obligations upon the occurrence of certain events. In addition, some of our debt instruments contain a cross default provision, whereby an uncured default in excess of a specified amount on one debt obligation of the Company, also would be considered a default under the terms of another debt instrument. As of December 31, 2014, we were in compliance with all such provisions.

Management is not aware of any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in a material increase or decrease in our liquidity. In addition, other than items discussed, there are no known material trends, favorable or unfavorable, in our capital resources and no expected material changes in the mix and relative cost of such resources.

#### Purchased Collars and Average Rate Forwards

In the first quarter of 2013, Corning executed a series of purchased collars that expire quarterly across a two-year period to hedge its translation exposure resulting from movements in the Japanese yen against the U.S. dollar. These derivatives are not designated as accounting hedges and changes in fair value are recorded in other income immediately. The fair value of these derivative contracts are recorded as either assets (gain position) or liabilities (loss position) on the Consolidated Balance Sheet.

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Beginning in the second quarter of 2013 and continuing throughout 2014, Corning entered into a series of average rate forwards with no associated premium, which hedge the translation impact of Japanese yen on Corning's projected 2015 net income and a significant portion of Corning's projected 2016 and 2017 net income. Like the purchased collars, these contracts settle quarterly, and are not designated as accounting hedges. In the years ended December 31, 2014 and 2013, we recorded pre-tax net gains of \$1,406 million and \$435 million, respectively, related to changes in the fair value of the purchased collars and average rate forward contracts, offset slightly by premium expense. Included in these amounts are realized gains of \$344 million and \$110 million, respectively, for the years ended December 31, 2014 and 2013. The gross notional value outstanding for purchase collars and average rate forwards which hedge our exposure to the Japanese yen at December 31, 2014 and 2013 was \$9.8 billion and \$6.8 billion, respectively.

In the second quarter of 2014, following the Acquisition, we entered into a portfolio of zero cost collars to hedge our translation exposure resulting from movements in the Korean won and its impact on our net earnings. These zero cost collars have a gross notional value outstanding at December 31, 2014 of \$2.3 billion, and began settling quarterly in the third quarter of 2014 and will conclude at the end of 2015. In the year ended December 31, 2014, we recorded a pre-tax net loss of \$37 million related to changes in the fair value of these zero cost collars, which included \$6 million in realized losses.

Gains and losses related to purchased collars and average rate forwards are recorded in earnings in the Other income, net line of the Consolidated Statements of Income.

#### Off Balance Sheet Arrangements

Off balance sheet arrangements are transactions, agreements, or other contractual arrangements with an unconsolidated entity for which Corning has an obligation to the entity that is not recorded in our consolidated financial statements.

Corning's off balance sheet arrangements include guarantee contracts. At the time a guarantee is issued, the Company is required to recognize a liability for the fair value or market value of the obligation it assumes. In the normal course of our business, we do not routinely provide significant third-party guarantees. Generally, third-party guarantees provided by Corning are limited to certain financial guarantees, including stand-by letters of credit and performance bonds, and the incurrence of contingent liabilities in the form of purchase price adjustments related to attainment of milestones. These guarantees have various terms, and none of these guarantees are individually significant.

Refer to Note 14 (Commitments, Contingencies, and Guarantees) to the Consolidated Financial Statements for additional information.

For variable interest entities, we assess the terms of our interest in each entity to determine if we are the primary beneficiary. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, which are the ownership, contractual, or other pecuniary interests in an entity that change with changes in the fair value of the entity's net assets excluding variable interests.

Corning has identified one entity that qualifies as a variable interest entity. This entity is not considered to be significant to Corning's consolidated statements of position.

Corning does not have retained interests in assets transferred to an unconsolidated entity that serve as credit, liquidity or market risk support to that entity.

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## Contractual Obligations

The amounts of our obligations follow (in millions):

|  | Amount of commitment and contingency expiration per period |                     |                 |                 |                           |
|--|--|---------------------|-----------------|-----------------|---------------------------|
|  | Total  | Less than<br>1 year | 1 to 3<br>years | 3 to 5<br>years | 5 years and<br>thereafter |
| Performance bonds and guarantees                             | \$ 75  | \$ 21               | \$ 3            | \$ 1            | \$ 50                     |
| Stand-by letters of credit (1)                               | 61   | 57                  |                 |                 | 4                         |
| Loan guarantees  | 14   |                     |                 |                 | 14                        |
| Subtotal of commitment expirations per period                | \$ 150   | \$ 78               | \$ 3            | \$ 1            | \$ 68                     |
| Purchase obligations (6)                                     | \$ 287   | \$ 152              | \$ 105          | \$ 15           | \$ 15                     |
| Capital expenditure obligations (2)                          | 358  | 358                 |                 |                 |                           |
| Total debt (3)   | 2,899  | 29                  | 314             | 250             | 2,306                     |
| Interest on long-term debt (4)                               | 2,451  | 151                 | 293             | 274             | 1,733                     |
| Capital leases and financing obligations (3)                 | 360  | 7                   | 14              | 7               | 332                       |
| Imputed interest on capital leases and financing obligations | 258  | 19                  | 38              | 38              | 163                       |
| Minimum rental commitments                                   | 238  | 48                  | 75              | 44              | 71                        |
| Uncertain tax positions (5)                                  | 2  | 1                   | 1               |                 |                           |
| Subtotal of contractual obligation payments due by period    | 6,853  | 765                 | 840             | 628             | 4,620                     |
| Total commitments and contingencies                          | \$ 7,003   | \$ 843              | \$ 843          | \$ 629          | \$ 4,688                  |

(1) At December 31, 2014, \$41 million of the \$61 million was included in other accrued liabilities on our consolidated balance sheets.

(2) Capital expenditure obligations primarily reflect amounts associated with our capital expansion activities.

(3) Total debt above is stated at maturity value, and excludes interest rate swap gains and bond discounts.

(4) The estimate of interest payments assumes interest is paid through the date of maturity or expiration of the related debt, based upon stated rates in the respective debt instruments.

(5) At December 31, 2014, \$8 million was included on our balance sheet related to uncertain tax positions. Of this amount, we are unable to estimate when \$6 million of that amount will become payable.

(6) Purchase obligations are enforceable and legally binding obligations which primarily consist of raw material and energy-related take-or-pay contracts.

We are required, at the time a guarantee is issued, to recognize a liability for the fair value or market value of the obligation it assumes. In the normal course of our business, we do not routinely provide significant third-party guarantees. Generally, third-party guarantees provided by Corning are limited to certain financial guarantees, including stand-by letters of credit and performance bonds, and the incurrence of contingent liabilities in the form of purchase price adjustments related to attainment of milestones. These guarantees have various terms, and none of these guarantees are individually significant.

We believe a significant majority of these guarantees and contingent liabilities will expire without being funded.

## ENVIRONMENT

Corning has been named by the Environmental Protection Agency (the Agency) under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 15 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by the Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is Corning's policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned by Corning based on expert analysis and continual monitoring by both internal and external consultants. At December 31, 2014 and 2013, Corning had accrued approximately \$42.5 million (undiscounted) and \$15 million (undiscounted), respectively, for its estimated liability for environmental cleanup and related litigation. Based upon the information developed to date, management believes that the accrued reserve is a reasonable estimate of the Company's liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

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## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires us to make estimates and assumptions that affect amounts reported therein. The estimates that required us to make difficult, subjective or complex judgments, including future projections of performance and relevant discount rates, are set forth below.

### Impairment of assets held for use

We are required to assess the recoverability of the carrying value of long-lived assets when an indicator of impairment has been identified. We review our long-lived assets in each quarter to assess whether impairment indicators are present. We must exercise judgment in assessing whether an event of impairment has occurred.

Manufacturing equipment includes certain components of production equipment that are constructed of precious metals, primarily platinum and rhodium. These metals are not depreciated because they have very low physical losses and are repeatedly reclaimed and reused in our manufacturing process over a very long useful life. Precious metals are reviewed for impairment as part of our assessment of long-lived assets. This review considers all of the Company's precious metals that are either in place in the production process; in reclamation, fabrication, or refinement in anticipation of re-use; or awaiting use to support increased capacity. Precious metals are only acquired to support our operations and are not held for trading or other non-manufacturing related purposes.

Examples of events or circumstances that may be indicative of impairments include, but are not limited to:

- A significant decrease in the market price of an asset;
- A significant change in the extent or manner in which a long-lived asset is being used or in its physical condition;
- A significant adverse change in legal factors or in the business climate that could affect the value of the asset, including an adverse action or assessment by a regulator;
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset;
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of an asset; and
- A current expectation that, more likely than not, an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets is grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. We must exercise judgment in assessing the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. For the majority of our reportable segments, we concluded that locations or businesses which share production along the supply chain must be combined in order to appropriately identify cash flows that are largely independent of the cash flows of other assets and liabilities.

For long-lived assets, when impairment indicators are present, we compare estimated undiscounted future cash flows, including the eventual disposition of the asset group at market value, to the assets' carrying value to determine if the asset group is recoverable. This assessment requires the exercise of judgment in assessing the future use of and projected value to be derived from the assets to be held and used. Assessments also consider changes in asset utilization, including the temporary idling of capacity and the expected timing for placing this capacity back into production. If there is an impairment, a loss is recorded to reflect the difference between the assets' fair value and carrying value. This may require judgment in estimating future cash flows and relevant discount rates and residual values in estimating the current fair value of the impaired assets to be held and used.

For an asset group that fails the test of recoverability described above, the estimated fair value of long-lived assets is determined using an “income approach”, “market approach”, “cost approach”, or a combination of one or more of these approaches as appropriate for the particular asset group being reviewed. All of these approaches start with the forecast of expected future net cash flows including the eventual disposition at market value of long-lived assets, and also considers the fair market value of all precious metals if appropriate for the asset group being reviewed. Some of the more significant estimates and assumptions in our analysis include: market size and growth, market share, projected selling prices, manufacturing cost and discount rate. Our estimates are based upon our historical experience, our commercial relationships, and available external information about future trends. We believe fair value assessments are most sensitive to market growth and the corresponding impact on volume and selling prices and that these are also more subjective than manufacturing cost and other assumptions. The Company believes its current assumptions and estimates are reasonable and appropriate.

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In the event the current net book value of an asset group is found to be greater than the net present value of the cash flows derived from the asset group, we determine the actual fair market value of long-lived assets with the assistance from valuation appraisals conducted by third parties. The results of these valuations generally represent the fair market value of the asset group that will remain after any necessary impairment adjustments have been recorded. The impairment charge will be allocated to assets within the asset group on a relative fair value basis.

At December 31, 2014 and December 31, 2013, the carrying value of precious metals was higher than the fair market value by \$222 million and \$164 million, respectively. These precious metals are utilized by the Display Technologies and Specialty Materials segments. Corning believes these precious metal assets to be recoverable due to the significant positive cash flow in both segments. The potential for impairment exists in the future if negative events significantly decrease the cash flow of these segments. Such events include, but are not limited to, a significant decrease in demand for products or a significant decrease in profitability in our Display Technologies or Specialty Materials segments.

In the fourth quarter of 2011, the Specialty Materials segment recorded an impairment charge in the amount of \$130 million related to certain assets used in the production of large cover glass due to sales that were significantly below our expectations. In the fourth quarter of 2012, after reassessing the large cover glass business, Corning concluded that the large cover glass market was developing differently in 2012 than our expectations, and demand for larger-sized cover glass was declining, and the market for this type of glass was instead targeting smaller gen size products. Additionally, in the fourth quarter of 2012, our primary customer of large cover glass notified Corning of its decision to exit from this display market. Based on these events, we recorded an additional impairment charge in the fourth quarter of 2012 in the amount of \$44 million, before tax. This impairment charge represents a write-down of assets specific to the glass-strengthening process for large size cover glass to their fair market values, and includes machinery and equipment used in the ion exchange process. Additional information on the asset impairment is found in Note 2 (Restructuring, Impairment and Other Charges) to the Consolidated Financial Statements.

#### Impairment of Goodwill

We are required to make certain subjective and complex judgments in assessing whether an event of impairment of goodwill has occurred, including assumptions and estimates used to determine the fair value of our reporting units.

Corning's goodwill relates primarily to the Display Technologies, Optical Communications, Specialty Materials and Life Sciences operating segments. On a quarterly basis, management performs a qualitative assessment of factors in each reporting unit to determine whether there have been any triggering events. The two-step impairment test is required only if we conclude that it is more likely than not that a reporting unit's fair value is less than its carrying amount. We perform a detailed, two-step process every three years if no indicators suggest a test should be performed in the interim. We use this calculation as quantitative validation of the step-zero qualitative process that is performed during the intervening periods and does not represent an election to perform the two-step process in place of the step-zero review.

The following summarizes our qualitative process to assess our goodwill balances for impairment:

- We assess qualitative factors in each of our reporting units which carry goodwill to determine whether it is necessary to perform the first step of the two-step quantitative goodwill impairment test.
- The following events and circumstances are considered when evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount:
  - o Macroeconomic conditions, such as a deterioration in general economic conditions, fluctuations in foreign exchange rates and/or other developments in equity and credit markets;

- o Market capital in relation to book value;
- o Industry and market considerations, such as a deterioration in the environment in which an entity operates, material loss in market share and significant declines in product pricing;
  - o Cost factors, such as an increase in raw materials, labor or other costs;
- o Overall financial performance, such as negative or declining cash flows or a decline in actual or forecasted revenue;
  - o Other relevant entity-specific events, such as material changes in management or key personnel; and
- o Events affecting a reporting unit, such as a change in the composition or carrying amount of its net assets including acquisitions and dispositions.

The examples noted above are not all-inclusive, and the Company will consider other relevant events and circumstances that affect the fair value of a reporting unit in determining whether to perform the first step of the goodwill impairment test.

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Our two-step goodwill recoverability assessment is based on our annual strategic planning process. This process includes an extensive review of expectations for the long-term growth of our businesses and forecasted future cash flows. Our valuation method is an “income approach” using a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. Our estimates are based upon our historical experience, our current knowledge from our commercial relationships, and available external information about future trends.

#### Display Technologies

Goodwill for the Display Technologies segment is tested at the reporting unit level which is also the operating segment level. On a quarterly basis in 2014, management performed a qualitative assessment of factors and determined there had not been any triggering events which would indicate that the Display Technologies reporting unit’s fair value is less than its carrying amount.

#### Optical Communications

Goodwill for the Optical Communications segment is tested at the reporting unit level which is also the operating segment level. On a quarterly basis in 2014, management performed a qualitative assessment of factors and determined there had not been any triggering events which would indicate that the Optical Communications reporting unit’s fair value is less than its carrying amount.

In addition to assessing qualitative factors each quarter, we performed a quantitative goodwill recoverability test in 2012 for this reporting unit. The results of our impairment test indicated that the fair value of the reporting unit exceeded its book value by a significant amount. A discount rate of 9% was used in 2012. We determined a range of discount rates between 7% and 11% would not have affected our conclusion.

#### Specialty Materials

Goodwill for the Specialty Materials segment is tested at the reporting unit level, which is one level below an operating segment, as goodwill is the result of transactions associated with certain businesses within this operating segment. There is only one reporting unit with goodwill within this operating segment. On a quarterly basis in 2014, management performed a qualitative assessment of factors and determined there had not been any triggering events which would indicate that the Specialty Materials reporting unit’s fair value is less than its carrying amount.

In addition to assessing qualitative factors each quarter, we performed a quantitative goodwill recoverability test in 2012 for this reporting unit. The results of our impairment test indicated that the fair value of the reporting unit exceeded its book value by a significant amount. A discount rate of 8% was used in 2012. We determined a range of discount rates between 6% and 10% would not have affected our conclusion. Additionally, the asset impairment which occurred in the fourth quarter of 2012 did not cause a triggering event for goodwill impairment in this reporting unit because the cash flow related to this lower level asset group is not material to this reporting unit.

#### Life Sciences

Goodwill for the Life Sciences segment is tested at the reporting unit level which is also the operating segment level. On a quarterly basis in 2014, management performed a qualitative assessment of factors and determined there had not been any triggering events which would indicate that the Life Sciences reporting unit’s fair value is less than its carrying amount.

In addition to assessing qualitative factors each quarter, we performed a quantitative goodwill recoverability test in 2012 for this reporting unit. The results of our impairment test indicated that the fair value of the reporting unit exceeded its book value by a significant amount. A discount rate of 7% was used in 2012. We determined a range of discount rates between 5% and 9% would not have affected our conclusion.

#### Restructuring charges and impairments resulting from restructuring actions

We are required to assess whether and when a restructuring event has occurred and in which periods charges related to such events should be recognized. We must estimate costs of plans to restructure including, for example, employee termination costs. Restructuring charges require us to exercise judgment about the expected future of our businesses, of portions thereof, their profitability, cash flows and in certain instances eventual outcome. The judgment involved can be difficult, subjective and complex in a number of areas, including assumptions and estimates used in estimating the future profitability and cash flows of our businesses.

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Restructuring events often give rise to decisions to dispose of or abandon certain assets or asset groups which, as a result, require impairment. We are required to carry assets to be sold or abandoned at the lower of cost or fair value. We must exercise judgment in assessing the fair value of the assets to be sold or abandoned.

#### Income taxes

We are required to exercise judgment about our future results in assessing the realizability of our deferred tax assets. Inherent in this estimation process is the requirement for us to estimate future book and taxable income and possible tax planning strategies. These estimates require us to exercise judgment about our future results, the prudence and feasibility of possible tax planning strategies, and the economic environments in which we do business. It is possible that actual results will differ from assumptions and require adjustments to allowances.

Corning accounts for uncertain tax positions in accordance with FASB ASC Topic 740, Income Taxes. As required under FASB ASC Topic 740, we only record tax benefits for technical positions that we believe have a greater than 50% likelihood of being sustained on their technical merits and then only to the extent of the amount of tax benefit that is greater than 50% likely of being realized upon settlement. In estimating these amounts, we must exercise judgment around factors such as the weighting of the tax law in our favor, the willingness of a tax authority to aggressively pursue a particular position, or alternatively, consider a negotiated compromise, and our willingness to dispute a tax authorities assertion to the level of appeal we believe is required to sustain our position. As a result, it is possible that our estimate of the benefits we will realize for uncertain tax positions may change when we become aware of new information affecting these judgments and estimates.

#### Equity method investments

In October 2013, Corning announced that it was entering into a series of strategic and financial agreements with Samsung Display which would result in Corning obtaining full ownership of Samsung Corning Precision Materials. As part of this agreement, in the fourth quarter of 2013, Corning acquired the minority interests of three shareholders in Samsung Corning Precision Materials for \$506 million, which included payment for the transfer of non-operating assets and the pro-rata portion of cash on Samsung Corning Precision Materials balance sheet at September 30, 2013. The resulting transfer of shares to Corning increased Corning's ownership percentage of Samsung Corning Precision Materials from 50% to 57.5%. Because this transaction did not result in a change in control based on the governing articles of this entity, Corning did not consolidate this entity as of December 31, 2013. The remaining transactions were completed on January 15, 2014, which increased Corning's ownership to 100% and resulted in consolidation of the entity beginning in the first quarter of 2014. This organization was integrated into Corning's Display Technologies segment in 2014. Refer to Note 8 (Acquisition) to the Consolidated Financial Statements for additional information.

At December 31, 2014 and 2013, the carrying value of our equity method investments was \$1.8 billion and \$5.5 billion, respectively. In 2014, our largest equity method investment, Dow Corning, comprised 74% of the balance. In 2013, prior to the Acquisition and consolidation of Samsung Corning Precision Materials, our largest equity method investments, Dow Corning and Samsung Corning Precision Materials, comprised approximately 93% of the balance. We review our equity method investments for indicators of impairment on a periodic basis or if events or circumstances change to indicate the carrying amount may be other-than-temporarily impaired. When such indicators are present, we then perform an in-depth review for impairment. An impairment assessment requires the exercise of judgment related to key assumptions such as forecasted revenue and profitability, forecasted tax rates, foreign currency exchange rate movements, terminal value assumptions, historical experience, our current knowledge from our commercial relationships, and available external information about future trends. As of December 31, 2014 and 2013, we have not identified any instances where the carrying values of our equity method investments were not

recoverable.

#### Fair value measures

As required, Corning uses two kinds of inputs to determine the fair value of assets and liabilities: observable and unobservable. Observable inputs are based on market data or independent sources, while unobservable inputs are based on the Company's own market assumptions. Once inputs have been characterized, we prioritize the inputs used to measure fair value into one of three broad levels. Characterization of fair value inputs is required for those accounting pronouncements that prescribe or permit fair value measurement. In addition, observable market data must be used when available and the highest-and-best-use measure should be applied to non-financial assets. Corning's major categories of financial assets and liabilities required to be measured at fair value are short-term and long-term investments, certain pension asset investments and derivatives. These categories use observable inputs only and are measured using a market approach based on quoted prices in markets considered active or in markets in which there are few transactions.

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Derivative assets and liabilities may include interest rate swaps and forward exchange contracts that are measured using observable quoted prices for similar assets and liabilities. In arriving at the fair value of Corning's derivative assets and liabilities, we have considered the appropriate valuation and risk criteria, including such factors as credit risk of the relevant party to the transaction. Amounts related to credit risk are not material.

As a result of the Acquisition of Samsung Corning Precision Materials, the Company has contingent consideration that was measured using unobservable (Level 3) inputs. This contingent consideration arrangement potentially requires additional consideration to be paid between the parties in 2018: one based on projections of future revenues generated by the business of Corning Precision Materials for the period between the acquisition date and December 31, 2017, which is subject to a cap of \$665 million; and another based on the volumes of certain sales during the same period, which is subject to a separate cap of \$100 million. The fair value of the potential receipt of the contingent consideration in 2018 in the amount of \$196 million recognized on the acquisition date was estimated by applying an option pricing model using the Company's projection of future revenues generated by Corning Precision Materials. Changes in the fair value of the contingent consideration in future periods are valued using an option pricing model and are recorded in Corning's results in the period of the change. As of December 31, 2014, the fair value of the potential receipt of the contingent consideration in 2018 is estimated to be \$445 million. Corning recorded a pre-tax adjustment in the year ended December 31, 2014 in the amount of \$249 million to reflect the increase in the fair value which is mainly due to the movement in foreign exchange rate.

#### Probability of litigation outcomes

We are required to make judgments about future events that are inherently uncertain. In making determinations of likely outcomes of litigation matters, we consider the evaluation of legal counsel knowledgeable about each matter, case law, and other case-specific issues. See Part II – Item 3. Legal Proceedings for a discussion of the material litigation matters we face. The most significant matter involving judgment is the liability for asbestos litigation. There are a number of factors bearing upon our potential liability, including the inherent complexity of a Chapter 11 filing, our history of success in defending asbestos claims, our assessment of the strength of our corporate veil defenses, and our continuing dialogue with our insurance carriers and the claimants' representatives. The proposed asbestos resolution (Amended PCC Plan) is subject to a number of contingencies. As noted in Part II – Item 3. Legal Proceedings, the District Court's affirmation of the Amended PCC Plan faces objections by certain parties. For these and other reasons, Corning's liability for these asbestos matters may be subject to changes in subsequent quarters. The estimate of the cost of resolving the non-PCC asbestos claims may also be subject to change as developments occur. Management continues to believe that the likelihood of the uncertainties surrounding these proceedings causing a material adverse impact to Corning's financial statements is remote.

#### Other possible liabilities

We are required to make judgments about future events that are inherently uncertain. In making determinations of likely outcomes of certain matters, including certain tax planning and environmental matters, these judgments require us to consider events and actions that are outside our control in determining whether probable or possible liabilities require accrual or disclosure. It is possible that actual results will differ from assumptions and require adjustments to accruals.

#### Pension and other postretirement employee benefits (OPEB)

Corning offers employee retirement plans consisting of defined benefit pension plans covering certain domestic and international employees and postretirement plans that provide health care and life insurance benefits for eligible retirees and dependents. The costs and obligations related to these benefits reflect the Company's assumptions related

to general economic conditions (particularly interest rates), expected return on plan assets, rate of compensation increase for employees and health care trend rates. The cost of providing plan benefits depends on demographic assumptions including retirements, mortality, turnover and plan participation.

Costs for our defined benefit pension plans consist of two elements: 1) on-going costs recognized quarterly, which are comprised of service and interest costs, expected return on plan assets and amortization of prior service costs; and 2) mark-to-market gains and losses outside of the corridor, where the corridor is equal to 10% of the greater of the benefit obligation or the market-related value of plan assets at the beginning of the year, which are recognized annually in the fourth quarter of each year. These gains and losses result from changes in actuarial assumptions for discount rates and the differences between actual and expected return on plan assets. Any interim remeasurements triggered by a curtailment, settlement or significant plan changes, as well as any true-up to the annual valuation, are recognized as a mark-to-market adjustment in the quarter in which such event occurs.

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Costs for our OPEB plans consist of on-going costs recognized quarterly, and are comprised of service and interest costs, amortization of prior service costs and amortization of actuarial gains and losses. We recognize the actuarial gains and losses resulting from changes in actuarial assumptions for discount rates as a component of Stockholders' Equity on our consolidated balance sheets on an annual basis and amortize them into our operating results over the average remaining service period of employees expected to receive benefits under the plans, to the extent such gains and losses are outside of the corridor.

While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Corning's employee pension and other postretirement obligations, and current and future expense.

The following table presents our actual and expected return on assets, as well as the corresponding percentage, for the years ended 2014, 2013 and 2012:

| (In millions)  | December 31, |       |        |
|--|--------------|-------|--------|
|  | 2014         | 2013  | 2012   |
| Actual return on plan assets – Domestic plans          | \$ 287       | \$ 65 | \$ 299 |
| Expected return on plan assets – Domestic plans        | 159          | 158   | 150    |
| Actual return on plan assets – International plans     | 68           | 6     | 10     |
| Expected return on plan assets – International plans   | 15           | 11    | 10     |
|  |              |       |        |
|  | December 31, |       |        |
|  | 2014         | 2013  | 2012   |
| Weighted-average actual and expected return on assets: |              |       |        |
| Actual return on plan assets – Domestic plans          | 10.82%       | 2.67% | 12.06% |
| Expected return on plan assets – Domestic plans        | 6.25%        | 6.00% | 6.00%  |
| Actual return on plan assets – International plans     | 17.15%       | 2.73% | 6.01%  |
| Expected return on plan assets – International plans   | 4.12%        | 3.73% | 6.01%  |

As of December 31, 2014, the Projected Benefit Obligation (PBO) for U.S. pension plans was \$3,222 million.

The following information illustrates the sensitivity to a change in certain assumptions for U.S. pension plans:

| Change in assumption                                 | Effect on 2015          | Effect on             |
|--|-------------------------|-----------------------|
|  | pre-tax pension expense | December 31, 2014 PBO |
| 25 basis point decrease in discount rate             | - 2 million             | + 89 million          |
| 25 basis point increase in discount rate             | + 2 million             | - 87 million          |
| 25 basis point decrease in expected return on assets | + 7 million             |                       |
| 25 basis point increase in expected return on assets | - 7 million             |                       |

The above sensitivities reflect the impact of changing one assumption at a time. Note that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear. These changes in assumptions would have no effect on Corning's funding requirements.

In addition, at December 31, 2014, a 25 basis point decrease in the discount rate would decrease stockholders' equity by \$116 million before tax, and a 25 basis point increase in the discount rate would increase stockholders' equity by \$113 million. In addition, the impact of greater than a 25 basis point decrease in discount rate would not be proportional to the first 25 basis point decrease in the discount rate.

The following table illustrates the sensitivity to a change in the discount rate assumption related to Corning's U.S. OPEB plans:

| Change in assumption                     | Effect on 2015<br>pre-tax OPEB<br>expense | Effect on<br>December 31, 2014<br>APBO* |
|--|---|---|
| 25 basis point decrease in discount rate | + 2 million                               | + 27 million                            |
| 25 basis point increase in discount rate | - 2 million                               | - 26 million                            |

\* Accumulated Postretirement Benefit Obligation (APBO).

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The above sensitivities reflect the impact of changing one assumption at a time. Note that economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear.

#### Revenue recognition

The Company recognizes revenue when it is realized or realizable and earned. In certain instances, revenue recognition is based on estimates of fair value of deliverables as well as estimates of product returns, allowances, discounts, and other factors. These estimates are supported by historical data. Corning also has contractual arrangements with certain customers in which we recognize revenue on a completed contract basis. Revenues under the completed-contract method are recognized upon substantial completion, defined as acceptance by the customer and compliance with performance specifications as agreed upon in the contract, which in certain instances require estimates and judgments in the determining the timing of substantial completion of the contract. While management believes that the estimates used are appropriate, differences in actual experience or changes in estimates may affect Corning's future results.

#### Share-Based Compensation

Share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating expected dividends. In addition, judgment is also required in estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, share-based compensation expense and our results of operations could be impacted.

#### NEW ACCOUNTING STANDARDS

Refer to Note 1 (Summary of Significant Accounting Policies) to the Consolidated Financial Statements.

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## FORWARD-LOOKING STATEMENTS

The statements in this Annual Report on Form 10-K, in reports subsequently filed by Corning with the Securities and Exchange Commission (SEC) on Form 10-Q, Form 8-K, and related comments by management that are not historical facts or information and contain words such as “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” and similar expressions are forward-looking statements. These forward-looking statements involve risks and uncertainties that may cause the actual outcome to be materially different. Such risks and uncertainties include, but are not limited to:

- global business, financial, economic and political conditions;
- tariffs and import duties;
- currency fluctuations between the U.S. dollar and other currencies, primarily the Japanese yen, New Taiwan dollar, Euro, Chinese renminbi and Korean won;
- product demand and industry capacity;
- competitive products and pricing;
- availability and costs of critical components and materials;
- new product development and commercialization;
- order activity and demand from major customers;
- fluctuations in capital spending by customers;
- possible disruption in commercial activities due to terrorist activity, cyber attack, armed conflict, political or financial instability, natural disasters, or major health concerns;
- unanticipated disruption to equipment, facilities, or operations;
- facility expansions and new plant start-up costs;
- effect of regulatory and legal developments;
- ability to pace capital spending to anticipated levels of customer demand;
- credit rating and ability to obtain financing and capital on commercially reasonable terms;
- adequacy and availability of insurance;
- financial risk management;
- acquisition and divestiture activities;
- rate of technology change;
- level of excess or obsolete inventory;
- ability to enforce patents and protect intellectual property and trade secrets;
- adverse litigation;
- product and components performance issues;
- retention of key personnel;
- stock price fluctuations;
- trends for the continued growth of the Company’s businesses;
- the ability of research and development projects to produce revenues in future periods;
- a downturn in demand or decline in growth rates for LCD glass substrates;
- customer ability, most notably in the Display Technologies segment, to maintain profitable operations and obtain financing to fund their ongoing operations and manufacturing expansions and pay their receivables when due;
- loss of significant customers;
- fluctuations in supply chain inventory levels;
- equity company activities, principally at Dow Corning;
- changes in tax laws and regulations;
- changes in accounting rules and standards;
- the potential impact of legislation, government regulations, and other government action and investigations;
- temporary idling of capacity or delaying expansion;
- the ability to implement productivity, consolidation and cost reduction efforts, and to realize anticipated benefits;

- restructuring actions and charges; and
- other risks detailed in Corning's SEC filings.

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#### Item 7A. Quantitative and Qualitative Disclosures About Market Risks

We operate and conduct business in many foreign countries and as a result are exposed to movements in foreign currency exchange rates. Our exposure to exchange rates has the following effects:

- Exchange rate movements on financial instruments and transactions denominated in foreign currencies that impact earnings; and
- Exchange rate movements upon conversion of net assets and net income of foreign subsidiaries for which the functional currency is not the U.S. dollar, which impact our net equity.

Our most significant foreign currency exposures relate to the Japanese yen, South Korean won, New Taiwan dollar, Chinese renminbi, and the Euro. We seek to mitigate the impact of exchange rate movements in our income statement by using over-the-counter (OTC) derivative instruments including foreign exchange forward and option contracts typically with durations of 36 months or less. In general, these hedges expire coincident with the timing of the underlying foreign currency commitments and transactions.

We are exposed to potential losses in the event of non-performance by our counterparties to these derivative contracts. However, we minimize this risk by maintaining a diverse group of highly-rated major international financial institutions with which we have other financial relationships as our counterparties. We do not expect to record any losses as a result of such counterparty default. Neither we nor our counterparties are required to post collateral for these financial instruments.

Our cash flow hedging activities utilize OTC foreign exchange forward contracts to reduce the risk that movements in exchange rates will adversely affect the net cash flows resulting from the sale of products to foreign customers and purchases from foreign suppliers. We also use OTC foreign exchange forward and option contracts that are not designated as hedging instruments for accounting purposes. The undesignated hedges limit exposures to foreign functional currency fluctuations related to certain subsidiaries' monetary assets, monetary liabilities and net earnings in foreign currencies. A significant portion of the Company's non-U.S. revenues are denominated in Japanese yen. When these revenues are translated back to U.S. dollars, the Company is exposed to foreign exchange rate movements in the Japanese yen. To protect translated earnings against movements in the Japanese yen, the Company has entered into a series of purchased collars and average rate forwards.

We use a sensitivity analysis to assess the market risk associated with our foreign currency exchange risk. Market risk is defined as the potential change in fair value of assets and liabilities resulting from an adverse movement in foreign currency exchange rates. At December 31, 2014, with respect to open foreign exchange forward and option contracts, and foreign denominated debt with values exposed to exchange rate movements, a 10% adverse movement in quoted foreign currency exchange rates could result in a loss in fair value of these instruments of \$1,080 million compared to \$479 million at December 31, 2013. Specific to the Japanese yen, a 10% adverse movement in quoted yen exchange rates could result in a loss in fair value of these instruments of \$959 million compared to \$398 million at December 31, 2013. Specific to the South Korean won, a 10% adverse movement in quoted South Korean won exchange rates could result in a loss in fair value of these instruments of \$79 million compared to \$0 million at December 31, 2013.

As we derive approximately 73% of our net sales from outside the U.S., our sales and net income could be affected if the U.S. dollar significantly strengthens or weakens against foreign currencies, most notably the Japanese yen, South Korean won, and Euro. Our forecasts generally assume exchange rates during 2015 will remain constant at January 2015 levels. As an example of the impact that changes in foreign currency exchange rates could have on our financial results, we compare 2014 actual sales in yen, won and Euro transaction currencies at an average currency exchange rate during the year to a 10% change in the currency exchange rate. A plus or minus 10% movement in the U.S. dollar – Japanese yen exchange rate would result in a change to 2014 net sales of approximately \$384 million. A plus



or minus 10% movement in the U.S. dollar – South Korean won and U.S. dollar – euro exchange rates would result in a change to 2014 net sales of approximately \$4 million and \$100 million, respectively. We estimate that a plus or minus 10% movement in the U.S. dollar – Japanese yen exchange rate would result in a change to 2014 net income attributable to Corning Incorporated of approximately \$238 million. A plus or minus 10% movement in the U.S. dollar – South Korean won and U.S. dollar – euro exchange rates would result in a change to 2014 net income attributable to Corning Incorporated of approximately \$73 million and \$31 million, respectively.

#### Interest Rate Risk Management

It is our policy to conservatively manage our exposure to changes in interest rates. We are party to two interest rate swaps that are designated as fair value hedges and economically exchange a notional amount of \$550 million of previously issued fixed rate long-term debt to floating rate debt. Under the terms of the swap agreements, we pay the counterparty a floating rate that is indexed to the one-month LIBOR rate.

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From time to time, we may issue debt, the proceeds of which may be used for general corporate purposes or to refinance certain debt maturities. Additionally, to manage interest rate exposure, the Company, from time to time, enters into interest rate swap agreements. In the fourth quarter of 2014, the Company entered into interest rate swap agreements to hedge against the variability in cash flows due to changes in the benchmark interest rate related to an anticipated issuance. The instruments were designated as cash flow hedges.

#### Item 8. Financial Statements and Supplementary Data

See Item 15 (a) 1.

#### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

#### Item 9A. Controls and Procedures

##### Disclosure Controls and Procedures

Our principal executive and principal financial officers, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this report, have concluded that based on the evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15, that our disclosure controls and procedures were effective.

##### Internal Control Over Financial Reporting

###### (a) Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate disclosure controls and procedures and adequate internal control over financial reporting for Corning. Management is also responsible for the assessment of the effectiveness of disclosure controls and procedures and the effectiveness of internal control over financial reporting.

Disclosure controls and procedures mean controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Corning's disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by Corning in the reports that it files or submits under the Exchange Act is accumulated and communicated to Corning's management, including Corning's principal executive and principal financial officers, or other persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Corning's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Corning's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Corning's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that Corning's receipts and expenditures are being made only in accordance with authorizations of Corning's management and directors; and (iii) provide

reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Corning's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment of internal control over financial reporting includes controls over recognition of equity earnings and equity investments by Corning. Internal control over financial reporting for Dow Corning is the responsibility of Dow Corning management. Based on this evaluation, management concluded that Corning’s internal control over financial reporting was effective as of December 31, 2014. The effectiveness of Corning’s internal control over financial reporting as of December 31, 2014, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(b) Attestation Report of the Independent Registered Public Accounting Firm

Refer to Part IV, Item 15.

(c) Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

##### Directors of the Registrant

The section entitled “Proposal 1 – Election of Directors” in our Definitive Proxy Statement relating to our annual meeting of shareholders to be held on April 30, 2015, is incorporated by reference in this Annual Report on Form 10-K. Information regarding executive officers is presented in Item I of this report on Form 10-K under the caption “Executive Officers of the Registrant.”

##### Audit Committee and Audit Committee Financial Expert

Corning has an Audit Committee and has identified three members of the Audit Committee as Audit Committee financial experts. See sections entitled “Committees” and “Additional Information” in our Definitive Proxy Statement relating to our annual meeting of shareholders to be held on April 30, 2015, which are incorporated by reference in this Annual Report on Form 10-K.

##### Compliance with Section 16(a) of the Exchange Act

The section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” in our Definitive Proxy Statement relating to our annual meeting of shareholders to be held on April 30, 2015, is incorporated by reference in this Annual Report on Form 10-K.

##### Code of Ethics

Our Board of Directors adopted the (i) Code of Ethics for the Chief Executive Officer and Financial Executives and the (ii) Code of Conduct for Directors and Executive Officers, which supplements the Code of Conduct. These Codes have been in existence for more than ten years and govern all employees and directors. During 2014, no amendments to or waivers of the provisions of the Code of Ethics were made with respect to any of our directors or executive officers. A copy of the Code of Ethics is available on our website at [www.corning.com/investor\\_relations/corporate\\_governance/codes\\_of\\_conduct.aspx](http://www.corning.com/investor_relations/corporate_governance/codes_of_conduct.aspx). We will also provide a copy of the Code of Ethics to shareholders without charge upon written request to Corporate Secretary, Corning Incorporated, Corning, NY 14831. We will disclose future amendments to, or waivers from, the Code of Ethics on our website within four business days following the date of such amendment or waiver. See section entitled “Ethics and Conduct” in our Definitive Proxy Statement relating to our annual meeting of shareholders to be held on April 30, 2015, which are incorporated by reference in this Annual Report on Form 10-K.

#### Item 11. Executive Compensation

The sections entitled “Compensation Discussion and Analysis”, “Compensation Tables”, “Item 1 – Election of Directors – Director Compensation” and “Compensation Committee Report” in our Definitive Proxy Statement relating to the annual meeting of shareholders to be held on April 30, 2015, are incorporated by reference in this Annual Report on Form 10-K.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The sections entitled “Stock Ownership Information – Beneficial Ownership of Directors and Officers” and “Stock Ownership Information-Beneficial Ownership of Corning’s Largest Shareholders” in our Definitive Proxy Statement relating to the annual meeting of shareholders to be held on April 30, 2015, are incorporated by reference in this Annual Report on Form 10-K. The information required by this item related to the Company’s securities authorized for issuance under equity compensation plans as of December 31, 2014 is included in Part I, “Item 5. Market for Registrant’s Common Equity Related Stockholder Matters and Issuer Purchases of Equity Securities” of this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions and Director Independence

The sections entitled “Policy on Transactions with Related Persons”, “Director Independence and Transactions Considered in Independence Determinations” and “Committees” in our Definitive Proxy Statement relating to the annual meeting of shareholders to be held on April 30, 2015, are incorporated by reference in this Annual Report on Form 10-K.

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Item 14. Principal Accounting Fees and Services

The sections entitled “Ratification of Appointment of Independent Public Accounting Firm – Fees Paid to Independent Registered Public Accounting Firm” and “Ratification of Appointment of Independent Accounting Firm – Policy Regarding Audit Committee Pre-Approval of Audit and Permitted Non-Audit Services of Independent Registered Public Accounting Firm” in our Definitive Proxy Statement relating to the annual meeting of shareholders to be held on April 30, 2015, are incorporated by reference in this Annual Report on Form 10-K.

In June 2014, PricewaterhouseCoopers LLP (PwC) issued its annual Public Company Accounting Oversight Board Rule 3526 independence letter to the Audit Committee of our Board of Directors and therein reported that it is independent under applicable standards in connection with its audit opinion for the financial statements contained in this report. The Audit Committee has discussed with PwC its independence from Corning, and concurred with PwC.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report:

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| 1. <u>Financial statements</u>   | 85   |
| 2. Financial statement schedule:   |      |
| (i) <u>Valuation accounts and reserves</u>                                   | 142  |
| See separate index to financial statements and financial statement schedules |      |

(b) Exhibits filed as part of this report:

- 3 (i) Restated Certificate of Incorporation dated April 27, 2012, filed with the Secretary of State of the State of New York on April 27, 2012 (Incorporated by reference to Exhibit 3(i) 1 of Corning's Form 8-K filed on May 1, 2012).
- 3 (i)(1) Certificate of Amendment to the Restated Certificate of Incorporation dated January 14, 2014, filed with the Secretary of State of the State of New York on January 14, 2014 (Incorporated by reference to Exhibit 3(i) of Corning's Form 8-K filed on January 15, 2014).
- 3 (ii) By-Laws of Corning amended to and effective as of April 26, 2012 (Incorporated by reference to Exhibit 3(ii)(1) of Corning's Form 8-K filed May 1, 2012).
- 4.1 Indenture, dated November 8, 2000, by and between the Company and of The Bank of New York Mellon Trust Company, N.A. (successor to J. P. Morgan Chase & Co., formerly The Chase Manhattan Bank), as trustee (Incorporated by reference to Exhibit 4.01 to the Company's Registration Statement on Form S-3, Registration Statement No. 333-57082). The Company agrees to furnish to the Commission on request copies of other instruments with respect to long-term debt.
- 4.2 Form of certificate for shares of the common stock (incorporated by reference to Exhibit 4 to the Company's registration statement on Form S-8 dated May 7, 2010 (Registration Statement No. 333-166642)). The terms of the Company's Fixed Rate Cumulative Convertible Preferred Stock, Series A are reflected in the Certificate of Amendment to the Restated Certificate of Incorporation dated January 14, 2014, filed with the Secretary of State of the State of New York on January 14, 2014 and included as Exhibit 3(i)(1) hereto.
- 4.3 Shareholder Agreement, dated as of October 22, 2013, by and between Samsung Display Co., Ltd. and Corning Incorporated (Incorporated by reference to Exhibit 10.66 to Corning's Form 10-K filed on February 10, 2014, as amended by its Form 10-K/A filed on March 21, 2014).



- 4.4 Standstill Agreement, dated as of October 22, 2013, by and among Samsung Electronics Co., Ltd., Samsung Display Co., Ltd. and Corning Incorporated (Incorporated by reference to Exhibit 10.67 to Corning's Form 10-K filed on February 10, 2014, as amended by its Form 10-K/A filed on March 21, 2014).
- 10.1 2000 Employee Equity Participation Program and 2003 Amendments (Incorporated by reference to Exhibit 1 of Corning Proxy Statement, Definitive 14A filed March 10, 2003 for April 24, 2003 Annual Meeting of Shareholders).
- 10.2 2003 Variable Compensation Plan (Incorporated by reference to Exhibit 2 of Corning Proxy Statement, Definitive 14A filed March 10, 2003 for April 24, 2003 Annual Meeting of Shareholders).
- 10.3 2003 Equity Plan for Non-Employee Directors (Incorporated by reference to Exhibit 3 of Corning Proxy Statement, Definitive 14A filed March 10, 2003 for April 24, 2003 Annual Meeting of Shareholders).
- 10.4 Form of Officer Severance Agreement dated as of February 1, 2004 between Corning Incorporated and each of the following individuals: James P. Clappin, James B. Flaws, Kirk P. Gregg, and Lawrence D. McRae (Incorporated by reference to Exhibit 10.1 of Corning's Form 10-Q filed May 4, 2004).
- 10.5 Form of Amendment dated as of February 1, 2004 to Change In Control Agreement dated as of October 4, 2000 between Corning Incorporated and the following individuals: James P. Clappin, James B. Flaws, Kirk P. Gregg, and Lawrence D. McRae (Incorporated by reference to Exhibit 10.4 of Corning's Form 10-Q filed May 4, 2004).

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- 10.6 Form of Change In Control Amendment dated as of October 4, 2000 between Corning Incorporated and the following individuals: James P. Clappin, James B. Flaws, Kirk P. Gregg and Lawrence D. McRae (Incorporated by reference to Exhibit 10.5 of Corning's Form 10-Q filed May 4, 2004).
- 10.7 Amendment dated as of February 1, 2004 to Change In Control Agreement dated as of April 23, 2002 between Corning Incorporated and Wendell P. Weeks (Incorporated by reference to Exhibit 10.8 of Corning's Form 10-Q filed May 4, 2004).
- 10.8 Change In Control Agreement dated as of April 23, 2002 between Corning Incorporated and Wendell P. Weeks (Incorporated by reference to Exhibit 10.9 of Corning's Form 10-Q filed May 4, 2004).
- 10.9 Form of Corning Incorporated Incentive Stock Plan Agreement for Restricted Stock Grants (Incorporated by reference to Exhibit 10.1 of Corning's Form 10-Q filed October 28, 2004).
- 10.10 Form of Corning Incorporated Incentive Stock Plan Agreement for Restricted Stock Retention Grants (Incorporated by reference to Exhibit 10.2 of Corning's Form 10-Q filed October 28, 2004).
- 10.11 Form of Corning Incorporated Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.3 of Corning's Form 10-Q filed October 28, 2004).
- 10.12 Form of Corning Incorporated Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.4 of Corning's Form 10-Q filed October 28, 2004).
- 10.13 2005 Employee Equity Participation Program (Incorporated by reference to Exhibit I of Corning Proxy Statement, Definitive 14A filed March 1, 2005 for April 28, 2005 Annual Meeting of Shareholders).
- 10.14 2006 Variable Compensation Plan (Incorporated by reference to Appendix J of Corning Proxy Statement, Definitive 14A filed March 8, 2006 for April 27, 2006 Annual Meeting of Shareholders).
- 10.15 Amended 2003 Equity Plan for Non-Employee Directors (Incorporated by reference to Appendix K of Corning Proxy Statement, Definitive 14A filed March 8, 2006 for April 27, 2006 Annual Meeting of Shareholders).
- 10.16 Amended Corning Incorporated 2003 Equity Plan for Non-Employee Directors effective October 4, 2006 (Incorporated by reference to Exhibit 10.28 of Corning's Form 10-K filed February 25, 2007).
- 10.17 Amended Corning Incorporated 2005 Employee Equity Participation Program effective October 4, 2006 (Incorporated by reference to Exhibit 10.29 of Corning's Form 10-K filed February 25, 2007).
- 10.18 Form of Corning Incorporated Incentive Stock Plan Agreement for Restricted Stock Grants, amended effective December 6, 2006 (Incorporated by reference to Exhibit 10.30 of Corning's Form 10-K filed February 25, 2007).
- 10.19 Executive Supplemental Pension Plan effective February 7, 2007 and signed February 12, 2007 (Incorporated by reference to Exhibit 10.31 of Corning's Form 10-K filed February 25, 2007).

- 10.20 Executive Supplemental Pension Plan as restated and signed April 10, 2007 (Incorporated by reference to Exhibit 10 of Corning's Form 10-Q filed April 27, 2007).
- 10.21 Amendment No. 1 to 2006 Variable Compensation Plan dated October 3, 2007 (Incorporated by reference to Exhibit 10.34 of Corning's Form 10-K filed February 15, 2008).
- 10.22 Corning Incorporated Goalsharing Plan dated October 3, 2007 (Incorporated by reference to Exhibit 10.35 of Corning's Form 10-K filed February 15, 2008).
- 10.23 Corning Incorporated Performance Incentive Plan dated October 3, 2007 (Incorporated by reference to Exhibit 10.36 of Corning's Form 10-K filed February 15, 2008).
- 10.24 Amendment No. 1 to Deferred Compensation Plan for Directors dated October 3, 2007 (Incorporated by reference to Exhibit 10.37 of Corning's Form 10-K filed February 15, 2008).
- 10.25 Corning Incorporated Supplemental Pension Plan dated October 3, 2007 (Incorporated by reference to Exhibit 10.38 of Corning's Form 10-K filed February 15, 2008).
- 10.26 Corning Incorporated Supplemental Investment Plan dated October 3, 2007 (Incorporated by reference to Exhibit 10.39 of Corning's Form 10-K filed February 15, 2008).
- 10.27 Form of Corning Incorporated Incentive Stock Plan Agreement for Restricted Stock Grants, amended effective December 5, 2007 (Incorporated by reference to Exhibit 10.40 of Corning's Form 10-K filed February 15, 2008).

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- 10.28 Form of Corning Incorporated Non-Qualified Stock Option Agreement, amended effective December 5, 2007 (Incorporated by reference to Exhibit 10.41 of Corning's Form 10-K filed February 15, 2008).
- 10.29 Amendment No. 2 dated February 13, 2008 and Amendment dated as of February 1, 2004 to Letter of Understanding between Corning Incorporated and Wendell P. Weeks, and Letter of Understanding dated April 23, 2002 between Corning Incorporated and Wendell P. Weeks (Incorporated by reference to Exhibit 10.42 of Corning's Form 10-K filed February 15, 2008).
- 10.30 Form of Change in Control Agreement Amendment No. 2, effective December 5, 2007 (Incorporated by reference to Exhibit 10.43 of Corning's Form 10-K filed February 15, 2008).
- 10.31 Form of Officer Severance Agreement Amendment, effective December 5, 2007 (Incorporated by reference to Exhibit 10.44 of Corning's Form 10-K filed February 15, 2008).
- 10.32 Amendment No. 1 to Corning Incorporated Supplemental Investment Plan, approved December 17, 2007 (Incorporated by reference to Exhibit 10.45 of Corning's Form 10-K filed February 15, 2008).
- 10.33 Amendment No. 1 to Corning Incorporated Supplemental Pension Plan, approved December 17, 2007 (Incorporated by reference to Exhibit 10.46 of Corning's Form 10-K filed February 15, 2008).
- 10.34 Amendment No. 1 to Corning Incorporated Executive Supplemental Pension Plan, approved December 17, 2007 (Incorporated by reference to Exhibit 10.47 of Corning's Form 10-K filed February 15, 2008).
- 10.35 Second Amended 2005 Employee Equity Participation Program (Incorporated by reference to Exhibit 10 of Corning's Form 8-K filed April 25, 2008).
- 10.36 Amendment No. 2 to Executive Supplemental Pension Plan effective July 16, 2008 (Incorporated by reference to Exhibit 10 of Corning's Form 10-Q filed July 30, 2008).
- 10.37 Form of Corning Incorporated Non-Qualified Stock Option Agreement effective as of December 3, 2008 (Incorporated by reference to Exhibit 10.50 of Corning's Form 10-K filed February 24, 2009).
- 10.38 Form of Corning Incorporated Incentive Stock Right Agreement effective as of December 3, 2008 (Incorporated by reference to Exhibit 10.51 of Corning's Form 10-K filed February 24, 2009).
- 10.39 Form of Corning Incorporated Incentive Stock Plan Agreement for Restricted Stock Grants effective December 3, 2008 (Incorporated by reference to Exhibit 10.52 of Corning's Form 10-K filed February 24, 2009).
- 10.40 Form of Change of Control Agreement Amendment No. 3 effective December 19, 2008 (Incorporated by reference to Exhibit 10.53 of Corning's Form 10-K filed February 24, 2009).
- 10.41 Form of Officer Severance Agreement Amendment No. 2 effective December 19, 2008 (Incorporated by reference to Exhibit 10.54 of Corning's Form 10-K filed February 24, 2009).
- 10.42 Amendment No. 3 dated December 19, 2008 to Letter of Understanding dated April 23, 2002 between Corning Incorporated and Wendell P. Weeks (Incorporated by reference to Exhibit 10.55 of Corning's Form 10-K filed February 24, 2009).

- 10.43 Amendment No. 2 to Corning Incorporated Supplemental Investment Plan approved April 29, 2009 (Incorporated by reference to Exhibit 10.1 of Corning's Form 10-Q filed July 29, 2009).
- 10.44 Amendment No. 2 to Deferred Compensation Plan dated April 29, 2009 (Incorporated by reference to Exhibit 10.2 of Corning's Form 10-Q filed July 29, 2009).
- 10.45 Amendment No. 2 to 2006 Variable Compensation Plan dated December 2, 2009 (Incorporated by reference to Exhibit 10.58 of Corning's Form 10-K filed February 10, 2010).
- 10.46 Form of Corning Incorporated Cash Performance Unit Agreement, effective December 2, 2009 (Incorporated by reference to Exhibit 10.59 of Corning's Form 10-K filed February 10, 2010).
- 10.47 Form of Corning Incorporated Incentive Stock Right Agreement for Time-Based Restricted Stock Units, effective December 2, 2009 (Incorporated by reference to Exhibit 10.60 of Corning's Form 10-K filed February 10, 2010).
- 10.48 2010 Variable Compensation Plan (Incorporated by reference to Appendix A of Corning's Proxy Statement, Definitive 14A filed March 15, 2010 for April 29, 2010 Annual Meeting of Shareholders).

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- 10.49 2010 Equity Plan for Non-Employee Directors (Incorporated by reference to Appendix B of Corning Proxy Statement, Definitive 14A filed March 15, 2010 for April 29, 2010 Annual Meeting of Shareholders).
- 10.50 Compensation Arrangement for Retention of James B. Flaws approved by the Corning Board Compensation Committee on January 3, 2011 (Incorporated by reference to Corning's Form 8-K filed January 3, 2011).
- 10.51 Amendment No. 2 to Corning Incorporated Supplemental Pension Plan dated December 18, 2008 (Incorporated by reference to Exhibit 10.66 of Corning's Form 10-K filed February 10, 2011).
- 10.52 Form of Corning Incorporated Incentive Stock Right Agreement for Time-Based Incentive Stock Rights, effective January 3, 2011 (Incorporated by reference to Exhibit 10.67 of Corning's Form 10-K filed February 10, 2011).
- 10.53 Form of Corning Incorporated Cash Performance Unit Agreement, effective January 3, 2011 (Incorporated by reference to Exhibit 10.68 of Corning's Form 10-K filed February 10, 2011).
- 10.54 Amendment No. 2 to Deferred Compensation Plan for Directors dated February 1, 2012 (Incorporated by reference to Exhibit 10.62 of Corning's Form 10-K filed February 13, 2012).
- 10.55 Amendment No. 3 to Corning Incorporated Executive Supplemental Pension Plan effective December 31, 2008 (Incorporated by reference to Exhibit 10.59 of Corning's Form 10-K filed February 13, 2013).
- 10.56 2012 Long-Term Incentive Plan (Incorporated by reference to Appendix A of Corning Proxy Statement, Definitive 14A filed March 13, 2012, for April 26, 2012 Annual Meeting of Shareholders).
- 10.57 Amendment No. 3 to Deferred Compensation Plan for Directors dated December 28, 2012 (Incorporated by reference to Exhibit 10.61 of Corning's Form 10-K filed February 13, 2013).
- 10.58 Amendment No. 4 to Corning Incorporated Executive Supplemental Pension Plan effective December 31, 2012 (Incorporated by reference to Exhibit 10.62 of Corning's Form 10-K filed February 13, 2013).
- 10.59 Framework Agreement, dated as of October 22, 2013, by and among Samsung Display Co., Ltd.; Corning Incorporated and the other parties thereto. (Incorporated by reference to Exhibit 10.65 to Corning's Form 10-K filed on February 10, 2014, as amended by its Form 10-K/A filed on March 21, 2014). The Company has omitted certain schedules, exhibits and similar attachments to the Framework Agreement pursuant to Item 601(b)(2) of Regulation S-K.
- 10.60 Form of Corning Incorporated Cash Performance Unit Agreement, effective January 1, 2014 (Incorporated by reference to Exhibit 10.69 to Corning's Form 10-K filed on February 10, 2014, as amended by its Form 10-K/A filed on March 21, 2014).
- 10.61 Amendment No. 4 to Deferred Compensation Plan for Directors dated September 30, 2014. (Incorporated by reference to Exhibit 10.1 of Corning's Form 10-Q filed on October 29, 2014).
- 10.62

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Amended and Restated Credit Agreement dated as of September 30, 2014, among Corning Incorporated, JPMorgan Chase Bank, N.A., Citibank, N.A., Bank of America, N.A., Deutsche Bank AG New York Branch, The Bank of Tokyo-Mitsubishi UFJ, Ltd., HSBC Bank USA, National Association, Standard Chartered Bank, Sumitomo Mitsui Banking Corporation, Barclays Bank PLC, Goldman Sachs Bank USA, Wells Fargo Bank, National Association, Bank of China New York Branch, and The Bank of New York Mellon (Incorporated by reference to Exhibit 10.1 to Corning's Form 8-K filed on October 3, 2014).

- 10.63 2014 Variable Compensation Plan (Incorporated by reference to Appendix B of Corning's Proxy Statement, Definitive 14A filed March 13, 2014 for the April 29, 2014 Annual Meeting of Shareholders).
- 10.64 Form of Corning Incorporated Incentive Stock Rights Agreement, effective January 1, 2015.
- 10.65 Form of Corning Incorporated Cash Performance Unit Agreement, effective January 1, 2015.
- 12 Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
- 14 Corning Incorporated Code of Ethics for Chief Executive Officer and Financial Executives, and Code of Conduct for Directors and Executive Officers (Incorporated by reference to Appendix G of Corning Proxy Statement, Definitive 14A filed March 13, 2012 for April 26, 2012 Annual Meeting of Shareholders).
- 21 Subsidiaries of the Registrant at December 31, 2014.

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- 23.1 Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
- 23.2 Consent of PricewaterhouseCoopers LLP.
- 23.3 Consent of Samil PricewaterhouseCoopers.
- 24 Powers of Attorney.
- 31.1 Certification Pursuant to Rule 13a-15(e) and 15d-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification Pursuant to Rule 13a-15(e) and 15d-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Label Linkbase Document
- 101.PRE XBRL Taxonomy Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Definition Document

(c) Financial Statements:

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Signatures

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused his report to be signed on its behalf by the undersigned, thereunto duly authorized.

Corning Incorporated

|    |  |  |                      |
|----|--|--|----------------------|
| By | /s/ Wendell P. Weeks<br><br>(Wendell P. Weeks) | Chairman of the Board of<br>Directors, Chief<br>Executive Officer and<br>President | February 13,<br>2015 |
|----|--|--|----------------------|

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

|  | Capacity   | Date                 |
|--|--|----------------------|
| /s/ Wendell P. Weeks<br>(Wendell P. Weeks) | Chairman of the Board of<br>Directors, Chief Executive<br>Officer and President<br>(Principal Executive Officer) | February 13,<br>2015 |
| /s/ James B. Flaws<br>(James B. Flaws)     | Vice Chairman of the Board of<br>Directors and Chief Financial<br>Officer<br>(Principal Financial Officer)       | February 13,<br>2015 |
| /s/ R. Tony Tripeny<br>(R. Tony Tripeny)   | Senior Vice President –<br>Corporate Controller<br>(Principal Accounting Officer)                                | February 13,<br>2015 |
| *<br>(Donald W. Blair)                     | Director   | February 13,<br>2015 |
| *<br>(Stephanie A. Burns)                  | Director   | February 13,<br>2015 |
| *<br>(John A. Canning, Jr.)                | Director   | February 13,<br>2015 |
| *<br>(Richard T. Clark)                    | Director   | February 13,<br>2015 |
| *  | Director   |                      |

|                               |          |                      |
|-------------------------------|----------|----------------------|
| (Robert F. Cummings, Jr.)     |          | February 13,<br>2015 |
| *<br>(James B. Flaws)         | Director | February 13,<br>2015 |
| *<br>(Deborah A. Henretta)    | Director | February 13,<br>2015 |
| *<br>(Daniel P. Huttenlocher) | Director | February 13,<br>2015 |
| *<br>(Kurt M. Landgraf)       | Director | February 13,<br>2015 |
| *<br>(Kevin J. Martin)        | Director | February 13,<br>2015 |

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|                            |          |                      |
|----------------------------|----------|----------------------|
| *<br>(Deborah D. Rieman)   | Director | February 13,<br>2015 |
| *<br>(Hansel E. Tookes II) | Director | February 13,<br>2015 |
| *<br>(Mark S. Wrighton)    | Director | February 13,<br>2015 |

\*By                    /s/ Lewis A. Steverson  
                              (Lewis A. Steverson,  
                              Attorney-in-fact)

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Corning Incorporated  
2014 Annual Report  
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Corning Incorporated:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Corning Incorporated and its subsidiaries at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in "Management's Annual Report on Internal Control Over Financial Reporting," appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
New York, New York  
February 13, 2015

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## Consolidated Statements of Income

Corning Incorporated and Subsidiary  
Companies

| (In millions, except per share amounts)                         | Years ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2014                     | 2013     | 2012     |
| Net sales   | \$ 9,715                 | \$ 7,819 | \$ 8,012 |
| Cost of sales   | 5,663                    | 4,495    | 4,693    |
| Gross margin  | 4,052                    | 3,324    | 3,319    |
| Operating expenses:   |                          |          |          |
| Selling, general and administrative expenses                    | 1,211                    | 1,126    | 1,205    |
| Research, development and engineering expenses                  | 815                      | 710      | 769      |
| Amortization of purchased intangibles                           | 33                       | 31       | 19       |
| Restructuring, impairment and other charges (Note 2)            | 71                       | 67       | 133      |
| Asbestos litigation (credit) charges (Note 7)                   | (9)                      | 19       | 14       |
| Operating income  | 1,931                    | 1,371    | 1,179    |
| Equity in earnings of affiliated companies (Note 7)             | 266                      | 547      | 810      |
| Interest income   | 26                       | 8        | 14       |
| Interest expense  | (123)                    | (120)    | (111)    |
| Transaction-related gain, net (Note 8)                          | 74                       |          |          |
| Other income, net   | 1,394                    | 667      | 83       |
| Income before income taxes                                      | 3,568                    | 2,473    | 1,975    |
| Provision for income taxes (Note 6)                             | (1,096)                  | (512)    | (339)    |
| Net income attributable to Corning Incorporated                 | \$ 2,472                 | \$ 1,961 | \$ 1,636 |
| Earnings per common share attributable to Corning Incorporated: |                          |          |          |
| Basic (Note 18)   | \$ 1.82                  | \$ 1.35  | \$ 1.10  |
| Diluted (Note 18)   | \$ 1.73                  | \$ 1.34  | \$ 1.09  |
| Dividends declared per common share                             | \$ 0.52                  | \$ 0.39  | \$ 0.32  |

The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated Statements of Comprehensive Income

Corning Incorporated and Subsidiary  
Companies

| (In millions)  | Years ended December 31, |          |          |
|--|--------------------------|----------|----------|
|  | 2014                     | 2013     | 2012     |
| Net income attributable to Corning Incorporated  | \$ 2,472                 | \$ 1,961 | \$ 1,636 |
| Foreign currency translation adjustments and other                                     | (1,073)                  | (682)    | (179)    |
| Net unrealized (losses) gains on investments   | (1)                      | 2        | 13       |
| Unamortized (losses) gains and prior service costs for<br>postretirement benefit plans | (281)                    | 392      | (1)      |
| Net unrealized gains (losses) on designated hedges                                     | 4                        | (24)     | 47       |
| Other comprehensive loss, net of tax (Note 17)   | (1,351)                  | (312)    | (120)    |
| Comprehensive income attributable to Corning Incorporated                              | \$ 1,121                 | \$ 1,649 | \$ 1,516 |

The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated Balance Sheets

Corning Incorporated and Subsidiary  
Companies

| (In millions, except share and per share amounts)   | December 31,     |                  |
|---|------------------|------------------|
|   | 2014             | 2013             |
| <b>Assets</b>   |                  |                  |
| <b>Current assets:</b>  |                  |                  |
| Cash and cash equivalents   | \$ 5,309         | \$ 4,704         |
| Short-term investments, at fair value (Note 3)  | 759              | 531              |
| Total cash, cash equivalents and short-term investments   | 6,068            | 5,235            |
| Trade accounts receivable, net of doubtful accounts and allowances - \$47 and \$28  | 1,501            | 1,253            |
| Inventories, net of inventory reserves - \$127 and \$94 (Note 5)  | 1,322            | 1,270            |
| Deferred income taxes (Note 6)  | 248              | 278              |
| Other current assets (Note 11 and 15)   | 1,099            | 855              |
| <b>Total current assets</b>   | <b>10,238</b>    | <b>8,891</b>     |
| Investments (Note 7)  | 1,801            | 5,537            |
| Property, plant and equipment, net of accumulated depreciation - \$8,332 and \$7,865 (Note 9)                             | 12,766           | 9,801            |
| Goodwill, net (Note 10)   | 1,150            | 1,002            |
| Other intangible assets, net (Note 10)  | 497              | 540              |
| Deferred income taxes (Note 6)  | 1,889            | 2,234            |
| Other assets (Note 8, 11 and 15)  | 1,722            | 473              |
| <b>Total Assets</b>   | <b>\$ 30,063</b> | <b>\$ 28,478</b> |
| <b>Liabilities and Equity</b>   |                  |                  |
| <b>Current liabilities:</b>   |                  |                  |
| Current portion of long-term debt (Note 12)   | \$ 36            | \$ 21            |
| Accounts payable  | 997              | 771              |
| Other accrued liabilities (Note 11 and 14)  | 1,291            | 954              |
| <b>Total current liabilities</b>  | <b>2,324</b>     | <b>1,746</b>     |
| Long-term debt (Note 12)  | 3,227            | 3,272            |
| Postretirement benefits other than pensions (Note 13)   | 814              | 766              |
| Other liabilities (Note 11 and 14)  | 2,046            | 1,483            |
| <b>Total liabilities</b>  | <b>8,411</b>     | <b>7,267</b>     |
| <b>Commitments and contingencies (Note 14)</b>  |                  |                  |
| <b>Shareholders' equity (Note 17):</b>  |                  |                  |
| Convertible preferred stock, Series A – Par value \$100 per share; Shares authorized 3,100; Shares issued: 2,300          | 2,300            |                  |
| Common stock – Par value \$0.50 per share; Shares authorized: 3.8 billion; Shares issued: 1,672 million and 1,661 million | 836              | 831              |

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|   |           |           |
|---|-----------|-----------|
| Additional paid-in capital – common stock                         | 13,456    | 13,066    |
| Retained earnings   | 13,021    | 11,320    |
| Treasury stock, at cost; shares held: 398 million and 262 million | (6,727)   | (4,099)   |
| Accumulated other comprehensive (loss) income                     | (1,307)   | 44        |
| Total Corning Incorporated shareholders' equity                   | 21,579    | 21,162    |
| Noncontrolling interests  | 73        | 49        |
| Total equity  | 21,652    | 21,211    |
| <br>  |           |           |
| Total Liabilities and Equity                                      | \$ 30,063 | \$ 28,478 |

The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated Statements of Cash Flows

Corning Incorporated and Subsidiary  
Companies

| (In millions)   | Years ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2014                     | 2013     | 2012     |
| <b>Cash Flows from Operating Activities:</b>                                      |                          |          |          |
| Net income  | \$ 2,472                 | \$ 1,961 | \$ 1,636 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |          |          |
| Depreciation  | 1,167                    | 971      | 978      |
| Amortization of purchased intangibles   | 33                       | 31       | 19       |
| Restructuring, impairment and other charges                                       | 71                       | 67       | 133      |
| Loss on retirement of debt  |                          |          | 26       |
| Stock compensation charges  | 58                       | 54       | 70       |
| Equity in earnings of affiliated companies  | (266)                    | (547)    | (810)    |
| Dividends received from affiliated companies                                      | 1,704                    | 630      | 1,090    |
| Deferred tax provision  | 612                      | 189      | 18       |
| Restructuring payments  | (39)                     | (35)     | (15)     |
| Employee benefit payments (in excess of) less than expense                        | (52)                     | 52       | 178      |
| Gains on translated earnings contracts  | (1,369)                  | (435)    |          |
| Unrealized translation losses on transactions                                     | 431                      | 96       | 241      |
| Contingent consideration fair value adjustment                                    | (249)                    |          |          |
| Changes in certain working capital items:   |                          |          |          |
| Trade accounts receivable   | (16)                     | (29)     | (272)    |
| Inventories   | 2                        | (247)    | (23)     |
| Other current assets  | (16)                     | 34       | (81)     |
| Accounts payable and other current liabilities                                    | (3)                      | (23)     | 189      |
| Other, net  | 169                      | 18       | (171)    |
| Net cash provided by operating activities   | 4,709                    | 2,787    | 3,206    |
| <b>Cash Flows from Investing Activities:</b>                                      |                          |          |          |
| Capital expenditures  | (1,076)                  | (1,019)  | (1,801)  |
| Acquisitions of businesses, net of cash received                                  | 66                       | (68)     | (723)    |
| Investment in unconsolidated entities   | (109)                    | (526)    | (111)    |
| Proceeds from loan repayments from unconsolidated entities                        | 23                       | 8        |          |
| Short-term investments – acquisitions   | (1,398)                  | (1,406)  | (2,270)  |
| Short-term investments – liquidations   | 1,167                    | 2,026    | 2,269    |
| Premium on purchased collars  |                          | (107)    |          |
| Realized gains on translated earnings contracts                                   | 361                      | 87       |          |
| Other, net  | 4                        | 1        | 8        |
| Net cash used in investing activities   | (962)                    | (1,004)  | (2,628)  |
| <b>Cash Flows from Financing Activities:</b>                                      |                          |          |          |
| Retirement of long-term debt, net   |                          | (498)    | (280)    |
| Net repayments of short-term borrowings and current portion of long-term debt     | (52)                     | (71)     | (26)     |
| Proceeds from issuance of long-term debt, net                                     |                          | 248      | 1,362    |

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|  |          |          |          |
|--|----------|----------|----------|
| Proceeds from issuance of short-term debt, net                           | 29       |          |          |
| Proceeds (payments) from the settlement of interest rate swap agreements |          | 33       | (18)     |
| Principal payments under capital lease obligations                       | (6)      | (7)      | (1)      |
| Proceeds from issuance of preferred stock (1)                            | 400      |          |          |
| Proceeds received for asset financing and related incentives, net        | 1        | 276      |          |
| Payments to acquire noncontrolling interest                              |          | (47)     |          |
| Proceeds from the exercise of stock options                              | 116      | 85       | 38       |
| Repurchases of common stock for treasury                                 | (2,483)  | (1,516)  | (720)    |
| Dividends paid   | (591)    | (566)    | (472)    |
| Other, net   |          |          | 2        |
| Net cash used in financing activities                                    | (2,586)  | (2,063)  | (115)    |
| Effect of exchange rates on cash   | (556)    | (4)      | (136)    |
| Net increase (decrease) in cash and cash equivalents                     | 605      | (284)    | 327      |
| Cash and cash equivalents at beginning of year                           | 4,704    | 4,988    | 4,661    |
| Cash and cash equivalents at end of year                                 | \$ 5,309 | \$ 4,704 | \$ 4,988 |

- (1) In the first quarter of 2014, Corning issued 1,900 shares of Preferred Stock to Samsung Display Co., Ltd. in connection with the acquisition of their equity interests in Samsung Corning Precision Materials Co., Ltd. (Note 8). Corning also issued to Samsung Display an additional 400 shares of Preferred Stock at closing, for an issue price of \$400 million in cash (Note 17).

The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated Statements of Changes in Shareholders' Equity

## Corning Incorporated and Subsidiary Companies

| (In millions)   | Convertible preferred stock | Additional Common paid-in capital | Retained earnings | Treasury stock | Accumulated other comprehensive income (loss) | Total Corning Incorporated share equity | Non-controlling interests | Total    |
|---|-----------------------------|-----------------------------------|-------------------|----------------|---|---|---------------------------|----------|
| Balance, December 31, 2011                              | \$ 818                      | \$ 13,041                         | \$ 8,767          | \$(2,024)      | \$ 476  | \$ 21,078                               | \$ 51                     | \$21,129 |
| Net income  |                             |                                   | 1,636             |                |   | 1,636                                   | (5)                       | 1,631    |
| Other comprehensive loss                                |                             |                                   |                   |                | (120)   | (120)                                   | 1                         | (119)    |
| Purchase of common stock for treasury                   |                             |                                   |                   | (719)          |   | (719)                                   |                           | (719)    |
| Shares issued to benefit plans and for option exercises | 7                           | 105                               |                   | (1)            |   | 111                                     |                           | 111      |
| Dividends on shares                                     |                             |                                   | (472)             |                |   | (472)                                   |                           | (472)    |
| Other, net  |                             |                                   | 1                 | (29)           |   | (28)                                    |                           | (28)     |
| Balance, December 31, 2012                              | \$ 825                      | \$ 13,146                         | \$ 9,932          | \$(2,773)      | \$ 356  | \$ 21,486                               | \$ 47                     | \$21,533 |
| Net income  |                             |                                   | 1,961             |                |   | 1,961                                   |                           | 1,961    |
| Other comprehensive loss                                |                             |                                   |                   |                | (312)   | (312)                                   |                           | (312)    |
| Purchase of common stock for treasury                   |                             | (200)                             |                   | (1,316)        |   | (1,516)                                 |                           | (1,516)  |
| Shares issued to benefit plans and for option exercises | 6                           | 139                               |                   | (1)            |   | 144                                     |                           | 144      |
| Dividends on shares                                     |                             |                                   | (566)             |                |   | (566)                                   |                           | (566)    |
| Other, net  |                             | (19)                              | (7)               | (9)            |   | (35)                                    | 2                         | (33)     |
| Balance, December 31, 2013                              | \$ 831                      | \$ 13,066                         | \$11,320          | \$(4,099)      | \$ 44   | \$ 21,162                               | \$ 49                     | \$21,211 |

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|  |          |        |           |          |           |            |           |       |          |
|--|----------|--------|-----------|----------|-----------|------------|-----------|-------|----------|
| Net income   |          |        |           | 2,472    |           |            | 2,472     | 3     | 2,475    |
| Other comprehensive loss                                   |          |        |           |          | (1,351)   |            | (1,351)   | (1)   | (1,352)  |
| Shares issued for acquisition of equity investment company | \$ 1,900 |        |           |          |           |            | 1,900     | 15    | 1,915    |
| Shares issued for cash                                     | 400      |        |           |          |           |            | 400       |       | 400      |
| Purchase of common stock for treasury                      |          |        | 129       | (2,612)  |           |            | (2,483)   |       | (2,483)  |
| Shares issued to benefit plans and for option exercises    |          | 5      | 261       |          | (2)       |            | 264       |       | 264      |
| Dividends on shares  |          |        |           | (771)    |           |            | (771)     |       | (771)    |
| Other, net   |          |        |           |          | (14)      |            | (14)      | 7     | (7)      |
| Balance, December 31, 2014                                 | \$ 2,300 | \$ 836 | \$ 13,456 | \$13,021 | \$(6,727) | \$ (1,307) | \$ 21,579 | \$ 73 | \$21,652 |

The accompanying notes are an integral part of these consolidated financial statements.

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Notes to Consolidated Financial Statements

Corning Incorporated and Subsidiary  
Companies

## 1. Summary of Significant Accounting Policies

### Organization

Corning Incorporated is a provider of high-performance glass for notebook computers, flat panel desktop monitors, LCD televisions, and other information display applications; carrier network and enterprise network products for the telecommunications industry; ceramic substrates for gasoline and diesel engines in automotive and heavy duty vehicle markets; laboratory products for the scientific community and specialized polymer products for biotechnology applications; advanced optical materials for the semiconductor industry and the scientific community; and other technologies. In these notes, the terms “Corning,” “Company,” “we,” “us,” or “our” mean Corning Incorporated and subsidiary companies.

### Basis of Presentation and Principles of Consolidation

Our consolidated financial statements were prepared in conformity with generally accepted accounting principles in the U.S. and include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries over which Corning exercises control.

The equity method of accounting is used for investments in affiliated companies that are not controlled by Corning and in which our interest is generally between 20% and 50% and we have significant influence over the entity. Our share of earnings or losses of affiliated companies, in which at least 20% of the voting securities is owned and we have significant influence but not control over the entity, is included in consolidated operating results. In the fourth quarter of 2013, Corning acquired the minority interests of three shareholders in one of our affiliated companies, Samsung Corning Precision Materials, which increased Corning’s ownership percentage from 50% to 57.5%. Because this transaction did not result in a change in control based on the governing articles of this entity, Corning did not consolidate this entity as of December 31, 2013. Corning acquired the remaining ownership interests of Samsung Corning Precision Materials on January 15, 2014, which increased Corning’s ownership to 100% and resulted in consolidation of the entity beginning in the first quarter of 2014.

We use the cost method to account for our investments in companies that we do not control and for which we do not have the ability to exercise significant influence over operating and financial policies. In accordance with the cost method, these investments are recorded at cost or fair value, as appropriate.

All material intercompany accounts, transactions and profits are eliminated in consolidation.

Certain prior year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no impact on our results of operations, financial position, or changes in shareholders’ equity.

### Samsung Corning Precision Materials Co., Ltd. (“Samsung Corning Precision Materials”)

As further discussed in Note 8 (Acquisition), on January 15, 2014, Corning completed a series of strategic and financial agreements to acquire the common shares of Samsung Corning Precision Materials previously held by Samsung Display Co., Ltd. (“Samsung Display”). As a result of these transactions, Corning is now the owner of 100% of the common shares of Samsung Corning Precision Materials, which we have consolidated into our results



beginning in the first quarter of 2014. Operating under the name of Corning Precision Materials Co., Ltd. (“Corning Precision Materials”), the former Samsung Corning Precision Materials organization and operations were integrated into the Display Technologies segment in the first quarter of 2014.

#### Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. Significant estimates and assumptions in these consolidated financial statements include estimates of fair value associated with revenue recognition, restructuring charges, goodwill and long-lived asset impairment tests, estimates of acquired assets and liabilities, estimates of fair value of investments, equity interests, environmental and legal liabilities, income taxes and deferred tax valuation allowances, assumptions used in calculating pension and other postretirement employee benefit expenses and the fair value of stock based compensation. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

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## 1. Summary of Significant Accounting Policies (continued)

## Revenue Recognition

Revenue for sales of goods is recognized when a firm sales agreement is in place, delivery has occurred and sales price is fixed or determinable and collection is reasonably assured. If customer acceptance of products is not reasonably assured, sales are recorded only upon formal customer acceptance. Sales of goods typically do not include multiple product and/or service elements.

At the time revenue is recognized, allowances are recorded, with the related reduction to revenue, for estimated product returns, allowances and price discounts based upon historical experience and related terms of customer arrangements. Where we have offered product warranties, we also establish liabilities for estimated warranty costs based upon historical experience and specific warranty provisions. Warranty liabilities are adjusted when experience indicates the expected outcome will differ from initial estimates of the liability.

In addition, Corning also has contractual arrangements with certain customers in which we recognize revenue on a completed contract basis. Revenues under the completed-contract method are recognized upon substantial completion, defined as acceptance by the customer and compliance with performance specifications as agreed upon in the contract. The Company acts as a principal under the contracts, and recognizes revenues with corresponding cost of revenues on a gross basis for the full amount of the contract.

## Other Income, Net

“Other income, net” in Corning’s consolidated statements of income includes the following (in millions):

|   | Years ended December 31, |        |       |
|---|--------------------------|--------|-------|
|   | 2014                     | 2013   | 2012  |
| Royalty income from Samsung Corning Precision Materials |                          | \$ 56  | \$ 83 |
| Foreign currency transaction and hedge gains, net       | \$ 1,352                 | 500    | 8     |
| Loss on retirement of debt                              |                          |        | (26)  |
| Foreign government subsidy                              | 3                        | 55     |       |
| Other, net  | 39                       | 56     | 18    |
| Total   | \$ 1,394                 | \$ 667 | \$ 83 |

Beginning in the first quarter of 2014, due to the Acquisition and consolidation of Samsung Corning Precision Materials (now Corning Precision Materials), royalty income from Corning Precision Materials is no longer recognized in Corning’s consolidated statements of income.

Included in the line item Foreign currency transaction and hedge gains, net, for the years ended December 31, 2014 and 2013 is the impact of purchased collars and average forward contracts which hedge our translation exposure resulting from movements in the Japanese yen and its impact on our net earnings. In the years ended December 31, 2014 and 2013, we recorded net pre-tax gains on our yen-denominated hedging programs in the amount of \$1,406 million and \$435 million, respectively, which included \$344 million and \$110 million of realized gains, respectively. These gains were driven by the mark-to-market of the purchased collars and average forward contracts, and occurred due to the depreciation in the 2014 and 2013 exchange rates for the Japanese yen versus the U.S. dollar of 14% and 22%, respectively. The gross notional value outstanding for purchased collars and average rate forward contracts was \$9.8 billion at December 31, 2014 and \$6.8 billion at December 31, 2013.

In the second quarter of 2014, following the Acquisition, we entered into a portfolio of zero cost collars to hedge our exposure to movements in the Korean won and its impact on our net earnings. These zero cost collars have a gross notional value outstanding at December 31, 2014 of \$2.3 billion, and began settling quarterly in the third quarter of 2014 and will conclude at the end of 2015. The net pre-tax loss on these zero cost collars, which is also included in the line item Foreign currency transaction and hedge gains, net, was \$37 million for the twelve months ended December 31, 2014, and included \$6 million of realized losses.

#### Research and Development Costs

Research and development costs are charged to expense as incurred. Research and development costs totaled \$701 million in 2014, \$613 million in 2013 and \$651 million in 2012.

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## 1. Summary of Significant Accounting Policies (continued)

## Foreign Currency Translation and Transactions

The determination of the functional currency for Corning's foreign subsidiaries is made based on the appropriate economic factors. For most foreign operations, the local currencies are generally considered to be the functional currencies. Corning's most significant exception is our Taiwanese subsidiary, which uses the Japanese yen as its functional currency. For all transactions denominated in a currency other than a subsidiary's functional currency, exchange rate gains and losses are included in income for the period in which the exchange rates changed.

Foreign subsidiary functional currency balance sheet accounts are translated at current exchange rates, and statement of operations accounts are translated at average exchange rates for the year. Translation gains and losses are recorded as a separate component of accumulated other comprehensive income in shareholders' equity. The effects of remeasuring non-functional currency assets and liabilities into the functional currency are included in current earnings, except for those related to intra-entity foreign currency transactions of a long-term investment nature, which are recorded together with translation gains and losses in other comprehensive income in shareholders' equity. Upon sale or substantially complete liquidation of an investment in a foreign entity, the amount of net translation gains or losses that have been accumulated in other comprehensive income attributable to that investment are reported as a gain or loss for the period in which the sale or liquidation occurs.

## Stock-Based Compensation

Corning's stock-based compensation programs include employee stock option grants, time-based restricted stock awards, time-based restricted stock units, performance based restricted stock awards and performance-based restricted stock units, as more fully described in Note 19 (Share-based Compensation) to the Consolidated Financial Statements.

The cost of stock-based compensation awards is equal to the fair value of the award at the date of grant and compensation expense is recognized for those awards earned over the vesting period. Corning estimates the fair value of stock based awards using a multiple-point Black-Scholes option valuation model, which incorporates assumptions including expected volatility, dividend yield, risk-free rate, expected term and departure rates.

## Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments that are readily convertible into cash. We consider securities with contractual maturities of three months or less, when purchased, to be cash equivalents. The carrying amount of these securities approximates fair value because of the short-term maturity of these instruments.

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

|  | Years ended December 31, |        |        |
|--|--------------------------|--------|--------|
|  | 2014                     | 2013   | 2012   |
| Non-cash transactions:                   |                          |        |        |
| Accruals for capital expenditures        | \$ 358                   | \$ 185 | \$ 240 |
| Cash paid for interest and income taxes: |                          |        |        |
| Interest (1)                             | \$ 171                   | \$ 182 | \$ 178 |
| Income taxes, net of refunds received    | \$ 577                   | \$ 469 | \$ 355 |

(1) Included in this amount are approximately \$40 million, \$35 million and \$74 million of interest costs that were capitalized as part of property, plant and equipment, net in 2014, 2013 and 2012, respectively.

## Short-Term Investments

Our short-term investments consist of available-for-sale securities that are stated at fair value. Consistent with Corning's cash investment policy, our short-term investments consist primarily of fixed-income securities. Preservation of principal is the primary principle of our cash investment policy that is carried out by limiting interest rate, reinvestment, security, quality and event risk. Our investments are generally liquid and all are investment grade quality. The portfolio is invested predominantly in U.S. Treasury securities and quality money market funds. Unrealized gains and losses, net of tax, are computed on a specific identification basis and are reported as a separate component of accumulated other comprehensive loss in shareholders' equity until realized. Realized gains and losses are recorded in other income (expense), net.

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## 1. Summary of Significant Accounting Policies (continued)

## Allowance for Doubtful Accounts

The Company's allowance for doubtful accounts is determined based on a variety of factors that affect the potential collectability of the related receivables, including length of time receivables are past due, customer credit ratings, financial stability of customers, specific one-time events and past customer history. In addition, in circumstances where the Company is made aware of a specific customer's inability to meet its financial obligations, a specific allowance is established. The majority of accounts are individually evaluated on a regular basis and appropriate reserves are established as deemed appropriate based on the above criteria.

## Environmental Liabilities

The Company accrues for its environmental investigation, remediation, operating, and maintenance costs when it is probable that a liability has been incurred and the amount can be reasonably estimated. For environmental matters, the most likely cost to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site, current laws and regulations and prior remediation experience. For sites with multiple potential responsible parties, the Company considers its likely proportionate share of the anticipated remediation costs and the ability of the other parties to fulfill their obligations in establishing a provision for those costs. Where no amount within a range of estimates is more likely to occur than another, the minimum amount is accrued. When future liabilities are determined to be reimbursable by insurance coverage, an accrual is recorded for the potential liability and a receivable is recorded related to the insurance reimbursement when reimbursement is virtually certain.

The uncertain nature inherent in such remediation and the possibility that initial estimates may not reflect the final outcome could result in additional costs being recognized by the Company in future periods.

## Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market.

## Property, Plant and Equipment, Net of Accumulated Depreciation

Land, buildings, and equipment, including precious metals, are recorded at cost. Depreciation is based on estimated useful lives of properties using the straight-line method. Except as described in Note 2 (Restructuring, Impairment and Other Charges) to the Consolidated Financial Statements related to accelerated depreciation arising from restructuring programs and Note 9 (Property, Plant and Equipment, Net of Accumulated Depreciation) of the Consolidated Financial Statements related to the depletion of precious metals, the estimated useful lives range from 10 to 40 years for buildings and 2 to 20 years for equipment.

Included in the subcategory of equipment are the following types of assets (excluding precious metals):

| Asset type                     | Range of useful life |
|--------------------------------|----------------------|
| Computer hardware and software | 3 to 7 years         |
| Manufacturing equipment        | 2 to 15 years        |
| Furniture and fixtures         | 5 to 10 years        |
| Transportation equipment       | 3 to 20 years        |

Manufacturing equipment includes certain components of production equipment that are constructed of precious metals. These assets are not depreciated because they have very low physical losses and are repeatedly reclaimed and

reused in our manufacturing process over a very long useful life. We treat the physical loss of precious metals in the manufacturing and reclamation process as depletion and account for these losses as a period expense based on actual units lost. Precious metals are integral to many of our glass production processes. They are only acquired to support our operations and are not held for trading or other purposes.

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1. Summary of Significant Accounting Policies (continued)

Goodwill and Other Intangible Assets

Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill relates to and is assigned directly to a specific reporting unit. Reporting units are either operating segments or one level below the operating segment. Impairment testing for goodwill is done at a reporting unit level. Goodwill is reviewed for indicators of impairment quarterly or if an event occurs or circumstances change that indicate the carrying amount may be impaired. Corning also performs a detailed, two-step process every three years if no indicators suggest a test should be performed in the interim. We use this calculation as quantitative validation of the step-zero qualitative process; this process does not represent an election to perform the two-step process in place of the step-zero review.

The qualitative process includes an extensive review of expectations for the long-term growth of our businesses and forecasting future cash flows. If we are required to perform the two-step impairment analysis, our valuation method is an “income approach” using a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. Our estimates are based upon our historical experience, our current knowledge from our commercial relationships, and available external information about future trends. If the fair value is less than the carrying value, a loss is recorded to reflect the difference between the fair value and carrying value.

Other intangible assets include patents, trademarks, and other intangible assets acquired from an independent party. Such intangible assets have a definite life and are amortized on a straight-line basis over estimated useful lives ranging from 4 to 50 years.

Impairment of Long-Lived Assets

We review the recoverability of our long-lived assets, such as plant and equipment and intangible assets, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. When impairment indicators are present, we compare estimated undiscounted future cash flows, including the eventual disposition of the asset group at market value, to the assets’ carrying value to determine if the asset group is recoverable. For an asset group that fails the test of recoverability, the estimated fair value of long-lived assets is determined using an “income approach” that starts with the forecast of all the expected future net cash flows including the eventual disposition at market value of long-lived assets, and also considers the fair market value of all precious metals. We assess the recoverability of the carrying value of long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If there is an impairment, a loss is recorded to reflect the difference between the assets’ fair value and carrying value. Refer to Note 2 (Restructuring, Impairment and Other Charges) to the Consolidated Financial Statements for more detail.

Employee Retirement Plans

Corning offers employee retirement plans consisting of defined benefit pension plans covering certain domestic and international employees and postretirement plans that provide health care and life insurance benefits for eligible retirees and dependents. The costs and obligations related to these benefits reflect the Company’s assumptions related to general economic conditions (particularly interest rates), expected return on plan assets, rate of compensation increase for employees and health care trend rates. The cost of providing plan benefits depends on demographic assumptions including retirements, mortality, turnover and plan participation.



Costs for our defined benefit pension plans consist of two elements: 1) on-going costs recognized quarterly, which are comprised of service and interest costs, expected return on plan assets and amortization of prior service costs; and 2) mark-to-market gains and losses outside of the corridor, where the corridor is equal to 10% of the greater of the benefit obligation or the market-related value of plan assets at the beginning of the year, which are recognized annually in the fourth quarter of each year. These gains and losses result from changes in actuarial assumptions for discount rates and the differences between actual and expected return on plan assets. Any interim remeasurements triggered by a curtailment, settlement or significant plan changes, as well as any true-up to the annual valuation, are recognized as a mark-to-market adjustment in the quarter in which such event occurs.

Costs for our postretirement benefit plans consist of on-going costs recognized quarterly, and are comprised of service and interest costs, amortization of prior service costs and amortization of actuarial gains and losses. We recognize the actuarial gains and losses resulting from changes in actuarial assumptions for discount rates as a component of Stockholders' Equity on our consolidated balance sheets on an annual basis and amortize them into our operating results over the average remaining service period of employees expected to receive benefits under the plans, to the extent such gains and losses are outside of the corridor.

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1. Summary of Significant Accounting Policies (continued)

Refer to Note 13 (Employee Retirement Plans) to the Consolidated Financial Statements for more detail.

Treasury Stock

Shares of common stock repurchased by us are recorded at cost as treasury stock and result in a reduction of shareholders' equity in the consolidated balance sheets. From time to time, treasury shares may be reissued as contributions to our employee benefit plans and for the retirement or conversion of certain debt instruments. When shares are reissued, we use an average cost method for determining cost. The difference between the cost of the shares and the reissuance price is added to or deducted from additional paid-in capital.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to operating loss and tax credit carry forwards and for differences between the carrying amounts of existing assets and liabilities and their respective tax bases.

The effective income tax rate reflects our assessment of the ultimate outcome of tax audits. In evaluating the tax benefits associated with our various tax filing positions, we record a tax benefit for uncertain tax positions using the highest cumulative tax benefit that is more likely than not to be realized. Adjustments are made to our liability for unrecognized tax benefits in the period in which we determine the issue is effectively settled with the tax authorities, the statute of limitations expires for the return containing the tax position or when new information becomes available. Our liability for unrecognized tax benefits, including accrued penalties and interest, is included in other accrued liabilities and other long-term liabilities on our consolidated balance sheets and in income tax expense in our consolidated statements of earnings.

Discrete events such as audit settlements or changes in tax laws are recognized in the period in which they occur. Valuation allowances are established when management is unable to conclude that it is more likely than not that some portion, or all, of the deferred tax asset will ultimately be realized.

The Company is subject to income taxes in the United States and in numerous foreign jurisdictions. With minor exceptions, no provision is made for U.S. income taxes on the undistributed earnings of wholly-owned foreign subsidiaries because substantially all such earnings are indefinitely reinvested in those companies. Provision for the tax consequences of distributions, if any, from consolidated foreign subsidiaries is recorded in the year in which the earnings are no longer indefinitely reinvested in those subsidiaries.

Equity Method Investments

Our equity method investments are reviewed for impairment on a periodic basis or if an event occurs or circumstances change that indicate the carrying amount may be impaired. This assessment is based on a review of the equity investments' performance and a review of indicators of impairment to determine if there is evidence of a loss in value of an equity investment. Factors we consider include:

- Absence of our ability to recover the carrying amount;
- Inability of the equity affiliate to sustain an earnings capacity which would justify the carrying amount of the investment; and
  - Significant litigation, bankruptcy or other events that could impact recoverability.

For an equity investment with impairment indicators, we measure fair value on the basis of discounted cash flows or other appropriate valuation methods, depending on the nature of the company involved. If it is probable that we will not recover the carrying amount of our investment, the impairment is considered other-than-temporary and recorded in earnings, and the equity investment balance is reduced to its fair value accordingly. We require our material equity method affiliates to provide audited financial statements. Consequently, adjustments for asset recoverability are included in equity earnings. We also utilize these financial statements in our recoverability assessment.

#### Fair Value of Financial Instruments

Major categories of financial assets and liabilities, including short-term investments, other assets and derivatives are measured at fair value on a recurring basis. Certain assets and liabilities including long-lived assets, goodwill, asset retirement obligations, and cost and equity investments are measured at fair value on a nonrecurring basis.

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## 1. Summary of Significant Accounting Policies (continued)

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

### Derivative Instruments

We participate in a variety of foreign exchange forward contracts and foreign exchange option contracts entered into in connection with the management of our exposure to fluctuations in foreign exchange rates. We utilize interest rate swaps to reduce the risk of changes in a benchmark interest rate from the probable forecasted issuance of debt and to swap fixed rate interest payments into floating rate interest payments. These financial exposures are managed in accordance with corporate policies and procedures.

All derivatives are recorded at fair value on the balance sheet. Changes in the fair value of derivatives designated as cash flow hedges and hedges of net investments in foreign operations are not recognized in current operating results but are recorded in accumulated other comprehensive income. Amounts related to cash flow hedges are reclassified from accumulated other comprehensive income when the underlying hedged item impacts earnings. This reclassification is recorded in the same line item of the consolidated statement of operations as where the effects of the hedged item are recorded, typically sales, royalties, or cost of sales. Changes in the fair value of derivatives designated as fair value hedges are recorded currently in earnings offset, to the extent the derivative was effective, by the change in the fair value of the hedged item. Changes in the fair value of derivatives not designated as hedging instruments are recorded currently in earnings in the other income, net line of the consolidated statement of operations.

### New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, Revenue from Contracts with Customers, as a new Topic, Accounting Standards Codification (ASC) Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period, and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. We are currently assessing the potential impact of adopting this ASU on our financial statements and related disclosures.

## 2. Restructuring, Impairment and Other Charges

### 2014 Activity

For the year ended December 31, 2014, we recorded charges of \$71 million for workforce reductions, asset disposals and write-offs, and exit costs for restructuring activities with total cash expenditures estimated to be \$51 million.

The following table summarizes the restructuring, impairment and other charges as of and for the year ended December 31, 2014 (in millions):

| Reserve at | Net | Non cash | Cash | Reserve at |
|------------|-----|----------|------|------------|
|------------|-----|----------|------|------------|

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|   | January 1,<br>2014 | Charges/<br>Reversals | adjustments | payments | December 31,<br>2014 |
|---|--------------------|-----------------------|-------------|----------|----------------------|
| <b>Restructuring:</b>                                       |                    |                       |             |          |                      |
| Employee related costs                                      | \$ 36              | \$ 48                 | \$ (9)      | \$ (31)  | \$ 44                |
| Other charges (credits)                                     | 8                  | 1                     | (1)         | (8)      |                      |
| Total restructuring activity                                | \$ 44              | \$ 49                 | \$ (10)     | \$ (39)  | \$ 44                |
| <b>Impairment charges and disposal of long-lived assets</b> |                    |                       |             |          |                      |
|   |                    | \$ 22                 |             |          |                      |
| Total restructuring, impairment and other charges           |                    | \$ 71                 |             |          |                      |

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## 2. Restructuring, Impairment and Other Charges (continued)

Cash payments for employee-related and exit activity related to the 2014 restructuring actions are expected to be substantially completed in 2015.

The year-to-date cost of these plans for each of our reportable segments was as follows (in millions):

| Operating segment                                 | Employee-related and other charges |
|---|------------------------------------|
| Display Technologies                              | \$ 50                              |
| Optical Communications                            | 17                                 |
| Specialty Materials                               | 1                                  |
| Life Sciences                                     | 1                                  |
| Corporate and All Other                           | 2                                  |
| Total restructuring, impairment and other charges | \$ 71                              |

## 2013 Activity

Corning implemented a corporate-wide restructuring plan within several of our segments in the fourth quarter of 2013, consisting of workforce reductions, asset disposals and write-offs, and exit costs. We recorded charges of \$67 million associated with these actions, with total cash expenditures expected to be approximately \$40 million.

The following table summarizes the restructuring, impairment and other charges as of and for the year ended December 31, 2013 (in millions):

|   | Reserve at January 1, 2013 | Net Charges/ Reversals | Non cash adjustments | Cash payments | Reserve at December 31, 2013 |
|---|----------------------------|------------------------|----------------------|---------------|------------------------------|
| <b>Restructuring:</b>                                 |                            |                        |                      |               |                              |
| Employee related costs                                | \$ 38                      | \$ 34                  | \$ (4)               | \$ (32)       | \$ 36                        |
| Other charges (credits)                               | 4                          | 7                      |                      | (3)           | 8                            |
| Total restructuring activity                          | \$ 42                      | \$ 41                  | \$ (4)               | \$ (35)       | \$ 44                        |
| Impairment charges and disposal of long-lived assets: |                            | \$ 26                  |                      |               |                              |
| Total restructuring, impairment and other charges     |                            | \$ 67                  |                      |               |                              |

Cash payments for employee-related and exit activity related to the 2013 corporate-wide restructuring plan were substantially completed in 2014.

## 2012 Activity

Corning implemented a corporate-wide restructuring plan in the fourth quarter of 2012 due to uncertain global economic conditions, and the potential for slower growth in many of our businesses in 2013. We recorded charges of \$89 million, before tax, which included costs for workforce reductions, asset write-offs and exit costs. Total cash expenditures associated with these actions are expected to be approximately \$49 million.

The Specialty Materials segment recorded an impairment charge in the fourth quarter of 2011 in the amount of \$130 million related to certain assets used in the production of large cover glass due to sales that were significantly below our expectations. In the fourth quarter of 2012, after reassessing the large cover glass business, Corning concluded that the large cover glass market was developing differently in 2012 than our expectations, demand for larger-sized cover glass was declining, and the market for this type of glass was instead targeting smaller gen size products. Additionally, in the fourth quarter of 2012, our primary customer of large cover glass notified Corning of its decision to exit from this display market. Based on these events, we recorded an additional impairment charge in the fourth quarter of 2012 in the amount of \$44 million, before tax. This impairment charge represents a write-down of assets specific to the glass-strengthening process for large size cover glass to their fair market values, and includes machinery and equipment used in the ion exchange process.

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## 2. Restructuring, Impairment and Other Charges (continued)

The following table summarizes the restructuring, impairment and other charges as of and for the year ended December 31, 2012 (in millions):

|  | Reserve at<br>January 1,<br>2012 | Net<br>Charges/<br>Reversals | Non cash<br>adjustments | Cash<br>payments | Reserve at<br>December 31,<br>2012 |
|--|----------------------------------|------------------------------|-------------------------|------------------|------------------------------------|
| <b>Restructuring:</b>  |                                  |                              |                         |                  |                                    |
| Employee related costs   | \$ 2                             | \$ 47                        | \$ (7)                  | \$ (4)           | \$ 38                              |
| Other charges (credits)  | 8                                | 5                            | (5)                     | (4)              | 4                                  |
| Total restructuring activity                                     | \$ 10                            | \$ 52                        | \$ (12)                 | \$ (8)           | \$ 42                              |
| <b>Impairment charges and disposal of<br/>long-lived assets:</b> |                                  |                              |                         |                  |                                    |
| Assets to be held and used                                       |                                  | 44                           |                         |                  |                                    |
| Assets to be disposed of   |                                  | 37                           |                         |                  |                                    |
| Total asset impairment charges and<br>disposals                  |                                  | \$ 81                        |                         |                  |                                    |
| Total restructuring, impairment and<br>other charges             |                                  | \$ 133                       |                         |                  |                                    |

Cash payments for employee-related costs related to the 2012 corporate-wide restructuring plan were substantially completed in 2013. Cash payments for exit activities were completed in 2012.

## 3. Available-for-Sale Investments

The following is a summary of the fair value of available-for-sale securities (in millions):

|   | Amortized cost<br>December 31, |        | Fair value<br>December 31, |        |
|---|--------------------------------|--------|----------------------------|--------|
|   | 2014                           | 2013   | 2014                       | 2013   |
| <b>Bonds, notes and other securities:</b> |                                |        |                            |        |
| U.S. government and agencies              | \$ 759                         | \$ 530 | \$ 759                     | \$ 531 |
| Total short-term investments              | \$ 759                         | \$ 530 | \$ 759                     | \$ 531 |
| Asset-backed securities                   | \$ 42                          | \$ 46  | \$ 38                      | \$ 38  |
| Total long-term investments               | \$ 42                          | \$ 46  | \$ 38                      | \$ 38  |

We do not intend to sell, nor do we believe it is more likely than not that we would be required to sell, the long-term investment asset-backed securities (which are collateralized by mortgages) before recovery of their amortized cost basis. It is possible that a significant degradation in the delinquency or foreclosure rates in the underlying assets could cause further temporary or other-than-temporary impairments in the future.

The following table summarizes the contractual maturities of available-for-sale securities at December 31, 2014 (in millions):

|                        |       |
|------------------------|-------|
| Less than one year     | \$440 |
| Due in 1-5 years       | 319   |
| Due in 5-10 years      |       |
| Due after 10 years (1) | 38    |



|       |       |
|-------|-------|
| Total | \$797 |
|-------|-------|

(1) Included in the maturity table is \$38 million of asset-based securities that mature over time.

Unrealized gains and losses, net of tax, are computed on a specific identification basis and are reported as a separate component of accumulated other comprehensive loss in shareholders' equity until realized.

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## 3. Available-for-Sale Investments (continued)

The following tables provide the fair value and gross unrealized losses of the Company's investments and unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2014 and 2013:

| (in millions)               | Number of securities in a loss position | December 31, 2014                  |                       | Total      |                   |
|-----------------------------|---|------------------------------------|-----------------------|------------|-------------------|
|                             |   | 12 months or greater<br>Fair value | Unrealized losses (1) | Fair value | Unrealized losses |
| Asset-backed securities     | 21                                      | \$ 37                              | \$ (4)                | \$ 37      | \$ (4)            |
| Total long-term investments | 21                                      | \$ 37                              | \$ (4)                | \$ 37      | \$ (4)            |

(1) Unrealized losses in securities less than 12 months were not significant.

| (in millions)               | Number of securities in a loss position | December 31, 2013                  |                       | Total      |                   |
|-----------------------------|---|------------------------------------|-----------------------|------------|-------------------|
|                             |   | 12 months or greater<br>Fair value | Unrealized losses (1) | Fair value | Unrealized losses |
| Asset-backed securities     | 20                                      | \$ 38                              | \$ (8)                | \$ 38      | \$ (8)            |
| Total long-term investments | 20                                      | \$ 38                              | \$ (8)                | \$ 38      | \$ (8)            |

(1) Unrealized losses in securities less than 12 months were not significant.

As of December 31, 2014 and 2013, for securities that have credit losses, an unrealized loss on other than temporary impaired securities of \$4 million and \$6 million, respectively, is recognized in accumulated other comprehensive income.

Proceeds from sales and maturities of short-term investments totaled \$1.2 billion, \$2 billion and \$2.3 billion in 2014, 2013 and 2012, respectively.

## 4. Significant Customers

For 2014, Corning's sales to Samsung Display Co. Ltd., a customer of our Display Technologies segment, represented 14% of the Company's consolidated net sales. In 2013, Corning's sales to AU Optronics Corporation, a customer of our Display Technologies segment, represented 10% of the Company's consolidated net sales. In 2012, no customers met or exceeded 10% of Corning's consolidated net sales.

## 5. Inventories, Net of Inventory Reserves

Inventories, net of inventory reserves comprise the following (in millions):

|  | December 31, |          |
|--|--------------|----------|
|  | 2014         | 2013     |
| Finished goods                               | \$ 486       | \$ 486   |
| Work in process                              | 255          | 234      |
| Raw materials and accessories                | 302          | 311      |
| Supplies and packing materials               | 279          | 239      |
| Total inventories, net of inventory reserves | \$ 1,322     | \$ 1,270 |

## 6. Income Taxes

Income before income taxes follows (in millions):

|                            | Years ended December 31, |          |          |
|----------------------------|--------------------------|----------|----------|
|                            | 2014                     | 2013     | 2012     |
| U.S. companies             | \$ 2,384                 | \$ 1,274 | \$ 382   |
| Non-U.S. companies         | 1,184                    | 1,199    | 1,593    |
| Income before income taxes | \$ 3,568                 | \$ 2,473 | \$ 1,975 |

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## 6. Income Taxes (continued)

The current and deferred amounts of the provision (benefit) for income taxes follow (in millions):

|                            | Years ended December 31, |        |        |
|----------------------------|--------------------------|--------|--------|
|                            | 2014                     | 2013   | 2012   |
| <b>Current:</b>            |                          |        |        |
| Federal                    | \$ 38                    | \$ 3   | \$ (4) |
| State and municipal        | 32                       | 12     | 3      |
| Foreign                    | 414                      | 308    | 321    |
| <b>Deferred:</b>           |                          |        |        |
| Federal                    | 411                      | 112    | 143    |
| State and municipal        | (9)                      | 50     | (8)    |
| Foreign                    | 210                      | 27     | (116)  |
| Provision for income taxes | \$ 1,096                 | \$ 512 | \$ 339 |

Amounts are reflected in the preceding tables based on the location of the taxing authorities.

Reconciliation of the U.S. statutory income tax rate to our effective tax rate for continuing operations follows:

|   | Years ended December 31, |          |        |
|---|--------------------------|----------|--------|
|   | 2014                     | 2013     | 2012   |
| Statutory U.S. income tax rate                    | 35.0%                    | 35.0%    | 35.0%  |
| State income tax (benefit), net of federal effect | 4.9 (8)                  | 0.6      | 0.2    |
| Tax holidays (1)                                  | (0.4)                    | (1.2)    | (1.7)  |
| Investment and other tax credits (2)              | (0.3)                    | (2.0)    | (1.1)  |
| Rate difference on foreign earnings               | (8.3)                    | (7.9)(4) | (2.0)  |
| Equity earnings impact (3)                        | (2.0)                    | (6.6)    | (13.6) |
| Valuation allowances                              | 0.7 (6)                  | 3.1 (5)  | (0.1)  |
| Other items, net                                  | 1.1 (7)                  | (0.3)    | 0.5    |
| Effective income tax (benefit) rate               | 30.7%                    | 20.7%    | 17.2%  |

- (1) Primarily related to a subsidiary in Taiwan operating under tax holiday arrangements. The nature and extent of such arrangements vary, and the benefits of existing arrangements phase out in future years (through 2018). The impact of tax holidays on net income per share on a diluted basis was \$0.01 in 2014, \$0.02 in 2013 and \$0.02 in 2012.
- (2) Primarily related to research and development and other credits in the U.S.
- (3) Equity in earnings of nonconsolidated affiliates reported in the financials net of tax. The decrease from 2012-2013 was driven by significantly lower earnings from Samsung Corning Precision Materials and from 2013-2014 the change of Samsung Corning Precision Materials from an equity company to a consolidated entity.
- (4) In 2013, \$74 million of tax benefit increase was due to \$37 million expense recorded in 2012 that was reversed in the first quarter of 2013 as a result of the retroactive application of the American Taxpayer Relief Act enacted on January 3, 2013. In 2013, the additional increase in the benefit was attributable to excess foreign tax credits realized in U.S. from a taxable intercompany loan.
- (5) Primarily related to change in judgment on the realizability of Australia and certain state deferred tax assets.
- (6) \$177 million tax expense related to change in judgment on the realizability of Germany and Japan deferred tax assets is partially offset with benefit from state deferred tax asset valuation allowance reductions, including the valuation allowance relating to the New York State attribute reduction discussed in (8) below.
- (7) Includes in 2014, \$9 million benefit for domestic manufacturing deduction and \$46 million of tax expense related to out of period transfer pricing adjustments. The impact of these corrections is not material to any individual period previously presented.

(8) Includes \$100 million tax expense related to the write-off of New York State tax attributes for a state law change that were offset with full valuation allowance.

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## 6. Income Taxes (continued)

The tax effects of temporary differences and carryforwards that gave rise to significant portions of the deferred tax assets and liabilities follows (in millions):

|  | December 31, |          |
|--|--------------|----------|
|  | 2014         | 2013     |
| Loss and tax credit carryforwards            | \$ 1,235     | \$ 1,788 |
| Other Assets                                 | 69           | 63       |
| Asset impairments and restructuring reserves | 170          | 172      |
| Postretirement medical and life benefits     | 312          | 290      |
| Fixed assets                                 |              | 85       |
| Other accrued liabilities                    | 246          | 320      |
| Other employee benefits                      | 473          | 387      |
| Gross deferred tax assets                    | 2,505        | 3,105    |
| Valuation allowance                          | (298)        | (286)    |
| Total deferred tax assets                    | 2,207        | 2,819    |
| Intangible and other assets                  | (152)        | (321)    |
| Fixed assets                                 | (299)        |          |
| Total deferred tax liabilities               | (451)        | (321)    |
| Net deferred tax assets                      | \$ 1,756     | \$ 2,498 |

The net deferred tax assets are classified in our consolidated balance sheets as follows (in millions):

|                                      | December 31, |          |
|--------------------------------------|--------------|----------|
|                                      | 2014         | 2013     |
| Current deferred tax assets          | \$ 248       | \$ 278   |
| Non-current deferred tax assets      | 1,889        | 2,234    |
| Current deferred tax liabilities     | (5)          | (1)      |
| Non-current deferred tax liabilities | (376)        | (13)     |
| Net deferred tax assets              | \$ 1,756     | \$ 2,498 |

Details on deferred tax assets for loss and tax credit carryforwards at December 31, 2014 follow (in millions):

|                                | Amount   | Expiration |           |           |            |
|--------------------------------|----------|------------|-----------|-----------|------------|
|                                |          | 2015-2019  | 2020-2024 | 2025-2034 | Indefinite |
| Net operating losses           | \$ 423   | \$ 92      | \$ 120    | \$ 20     | \$ 191     |
| Capital losses                 | 9        | 9          |           |           |            |
| Tax credits                    | 803      | 62         | 672       | 38        | 31         |
| Totals as of December 31, 2014 | \$ 1,235 | \$ 163     | \$ 792    | \$ 58     | \$ 222     |

The recognition of windfall tax benefits from stock-based compensation deducted on the tax return is prohibited until realized through a reduction of income tax payable. Cumulative tax benefits totaling \$236 million will be recorded in additional paid-in-capital when credit carry forwards are utilized and the windfall tax benefit can be realized.

Deferred tax assets are to be reduced by a valuation allowance if, based on the weight of available positive and negative evidence, it is more likely than not (a likelihood of greater than 50 percent) that some portion or all of the deferred tax assets will not be realized. Corning has valuation allowances on certain shorter-lived deferred tax assets such as those represented by capital loss and state tax net operating loss carry forwards, as well as other foreign net operating loss carryforwards, because we cannot conclude that it is more likely than not that we will earn income of the character required to utilize these assets before they expire. U.S. profits of approximately \$5.1 billion will be

required to fully realize the U.S. deferred tax assets as of December 31, 2014, of which \$110.3 million will be required over the next 20 years to realize the deferred tax assets related to general business credits and \$2.1 billion of foreign sourced income will be required over the next 10 years to fully realize the deferred tax assets associated with foreign tax credits. The amount of U.S. and foreign deferred tax assets that have remaining valuation allowances at December 31, 2014 and 2013 was \$298 million and \$286 million, respectively.

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## 6. Income Taxes (continued)

The following is a tabular reconciliation of the total amount of unrecognized tax benefits (in millions):

|  | 2014  | 2013  |
|--|-------|-------|
| Balance at January 1   | \$ 15 | \$ 16 |
| Additions based on tax positions related to the current year |       | 1     |
| Additions for tax positions of prior years                   | 5     |       |
| Reductions for tax positions of prior years                  |       |       |
| Settlements and lapse of statute of limitations              | (10)  | (2)   |
| Balance at December 31                                       | \$ 10 | \$ 15 |

Included in the balance at December 31, 2014 and 2013 are \$5 million and \$7 million, respectively, of unrecognized tax benefits that would impact our effective tax rate if recognized.

We recognize accrued interest and penalties associated with uncertain tax positions as part of tax expense. For the years ended December 31, 2014, 2013 and 2012, the amounts recognized in interest expense and income were immaterial. The amounts accrued at December 31, 2014 and 2013 for the payment of interest and penalties were not significant.

While we expect the amount of unrecognized tax benefits to change in the next 12 months, we do not expect the change to have a significant impact on the results of operations or our financial position.

Corning Incorporated, as the common parent company, and all 80%-or-more-owned of its U.S. subsidiaries join in the filing of consolidated U.S. federal income tax returns. All such returns for periods ended through December 31, 2004, have been audited by and settled with the Internal Revenue Service (IRS). The statute for all years from 2004 forward will remain open until the statute closes for the return in which the NOL carryovers generated in 2004 and 2005 are fully utilized. The statute for U.S. foreign tax and research and experimentation credit carryforwards generated through 2013 will also remain open until the statute closes for the returns in which the credits are utilized.

Corning Incorporated and its U.S. subsidiaries file income tax returns on a combined, unitary or stand-alone basis in multiple state and local jurisdictions, which generally have statutes of limitations ranging from 3 to 5 years. Various state income tax returns are currently in the process of examination or administrative appeal.

Our foreign subsidiaries file income tax returns in the countries in which they have operations. Generally, these countries have statutes of limitations ranging from 3 to 7 years. Years still open to examination by foreign tax authorities in major jurisdictions include Japan (2009 onward), Taiwan (2013 onward) and South Korea (2010 onward).

Corning continues to indefinitely reinvest substantially all of its foreign earnings, with the exception of approximately \$10 million of current earnings that have very low or no tax cost associated with their repatriation. Our current analysis indicates that we have sufficient U.S. liquidity, including borrowing capacity, to fund foreseeable U.S. cash needs without requiring the repatriation of foreign cash. One time or unusual items that may impact our ability or intent to keep our foreign earnings and cash indefinitely reinvested include significant U.S. acquisitions, stock repurchases, shareholder dividends, changes in tax laws, derivative contract settlements or the development of tax planning ideas that allow us to repatriate earnings at minimal or no tax cost, and/or a change in our circumstances or economic conditions that negatively impact our ability to borrow or otherwise fund U.S. needs from existing U.S. sources. As of December 31, 2014, taxes have not been provided on approximately \$10.3 billion of accumulated foreign unremitted earnings that are expected to remain invested indefinitely. While it remains impracticable to calculate the tax cost of repatriating our total unremitted foreign earnings, such cost could be material to the results of



operations of Corning in a particular period.

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## 7. Investments

Investments comprise the following (in millions):

|   | Ownership<br>interest (1) | December 31, |          |
|---|---------------------------|--------------|----------|
|   |                           | 2014         | 2013     |
| Affiliated companies accounted for by the equity method |                           |              |          |
| Samsung Corning Precision Materials (2)                 |                           |              | \$ 3,709 |
| Dow Corning   | 50%                       | \$ 1,325     | 1,420    |
| All other   | 20% to 50%                | 452          | 390      |
|   |                           | 1,777        | 5,519    |
| Other investments                                       |                           | 24           | 18       |
| Total   |                           | \$ 1,801     | \$ 5,537 |

(1) Amounts reflect Corning's direct ownership interests in the respective affiliated companies at December 31, 2014. Corning does not control any of such entities.

(2) On January 15, 2014 Corning acquired the remaining equity interests of Samsung Corning Precision Materials, resulting in 100% ownership of this entity.

## Affiliated Companies at Equity

The results of operations and financial position of the investments accounted for under the equity method follow (in millions):

|   | Years ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2014                     | 2013     | 2012     |
| Statement of operations (1)(2):                                   |                          |          |          |
| Net sales   | \$ 7,124                 | \$ 8,526 | \$ 9,957 |
| Gross profit  | \$ 1,701                 | \$ 2,655 | \$ 3,628 |
| Net income  | \$ 647                   | \$ 1,135 | \$ 1,541 |
| Corning's equity in earnings of affiliated companies              | \$ 266                   | \$ 547   | \$ 810   |
| Related party transactions:                                       |                          |          |          |
| Corning sales to affiliated companies                             | \$ 13                    | \$ 13    | \$ 50    |
| Corning purchases from affiliated companies                       | \$ 25                    | \$ 189   | \$ 167   |
| Corning transfers of assets, at cost, to affiliated companies (3) | \$                       | \$ 37    | \$ 55    |
| Dividends received from affiliated companies                      | \$ 130                   | \$ 629   | \$ 1,089 |
| Royalty income from affiliated companies                          | \$ 2                     | \$ 57    | \$ 84    |
| Corning services to affiliates                                    |                          | \$ 2     | \$ 24    |

|  | December 31, |           |
|--|--------------|-----------|
|  | 2014         | 2013      |
| Balance sheet (1)(2):  |              |           |
| Current assets   | \$ 5,432     | \$ 8,416  |
| Noncurrent assets  | \$ 6,864     | \$ 12,220 |
| Short-term borrowings, including current portion of long-term debt | \$ 7         | \$ 79     |
| Other current liabilities  | \$ 1,630     | \$ 1,886  |
| Long-term debt   | \$ 950       | \$ 937    |

|  |          |          |
|--|----------|----------|
| Other long-term liabilities            | \$ 5,143 | \$ 6,502 |
| Non-controlling interest               | \$ 634   | \$ 619   |
| Related party transactions:            |          |          |
| Balances due from affiliated companies | \$ 19    | \$ 45    |
| Balances due to affiliated companies   | \$ 2     | \$ 5     |

- (1) 2013 and 2012 amounts include Samsung Corning Precision Materials.
- (2) As a result of the series of strategic and financial agreements with Samsung Display entered into on October 22, 2013, certain non-operating assets of Samsung Corning Precision Materials were held for sale as of December 31, 2013 and are reported as discontinued operations in Samsung Corning Precision Materials financial statements, which are attached in Item 15, Exhibits and Financial Statement Schedules. Previous period amounts have been conformed for comparative purposes.
- (3) In 2013 and 2012, Corning purchased machinery and equipment on behalf of Samsung Corning Precision Materials to support its capital expansion initiatives.

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## 7. Investments (continued)

We have contractual agreements with several of our equity affiliates which include sales, purchasing, licensing and technology agreements.

At December 31, 2014, approximately \$1.9 billion of equity in undistributed earnings of equity companies was included in our retained earnings.

## Samsung Corning Precision Materials

Prior to December 2013, Corning owned 50% of its equity affiliate, Samsung Corning Precision Materials, Samsung Display owned 42.5% and three shareholders owned the remaining 7%. In the fourth quarter of 2013, in connection with a series of agreements with Samsung Display announced in October 2013, Corning acquired the minority interests of three shareholders in Samsung Corning Precision Materials for \$506 million, which included payment for the transfer of non-operating assets and the pro-rata portion of cash on the Samsung Corning Precision Materials balance sheet at September 30, 2013. The resulting transfer of shares to Corning increased Corning's ownership percentage of Samsung Corning Precision Materials from 50% to 57.5%. Because this transaction did not result in a change in control based on the governing documents of this entity, Corning did not consolidate this entity as of December 31, 2013.

As further discussed in Note 8 (Acquisition), on January 15, 2014, Corning completed the acquisition of the common shares of Samsung Corning Precision Materials previously held by Samsung Display. As a result of these transactions, Corning became the owner of 100% of the common shares of Samsung Corning Precision Materials, which was consolidated into our results beginning in the first quarter of 2014. Operating under the name of Corning Precision Materials, the former Samsung Corning Precision Materials organization and operations were integrated into the Display Technologies segment in the first quarter of 2014.

## Dow Corning

Dow Corning is a U.S.-based manufacturer of silicone products. Corning and Dow Chemical each own half of Dow Corning.

Dow Corning's financial position and results of operations follow (in millions):

|   | Years ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2014                     | 2013     | 2012     |
| <b>Statement of operations:</b>             |                          |          |          |
| Net sales                                   | \$ 6,221                 | \$ 5,711 | \$ 6,119 |
| Gross profit (1)                            | \$ 1,543                 | \$ 1,280 | \$ 1,413 |
| Net income attributable to Dow Corning      | \$ 513                   | \$ 376   | \$ 181   |
| Corning's equity in earnings of Dow Corning | \$ 252                   | \$ 196   | \$ 90    |
| <b>Related party transactions:</b>          |                          |          |          |
| Corning purchases from Dow Corning          | \$ 15                    | \$ 22    | \$ 23    |
| Dividends received from Dow Corning         | \$ 125                   | \$ 100   | \$ 100   |
|   | December 31,             |          |          |
|   | 2014                     | 2013     |          |
| <b>Balance sheet:</b>                       |                          |          |          |
| Current assets                              | \$ 4,712                 | \$ 3,996 |          |

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|  |          |          |
|--|----------|----------|
| Noncurrent assets  | \$ 6,433 | \$ 8,306 |
| Short-term borrowings, including current portion of long-term debt | \$ 7     | \$ 79    |
| Other current liabilities  | \$ 1,441 | \$ 1,267 |
| Long-term debt   | \$ 945   | \$ 937   |
| Other long-term liabilities  | \$ 5,125 | \$ 6,240 |
| Non-controlling interest   | \$ 634   | \$ 606   |

(1)Gross profit for the year ended December 31, 2014 includes R&D cost of \$273 million (2013: \$248 million and 2012: \$281 million).

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## 7. Investments (continued)

Beginning in the latter half of 2011, and continuing into 2012, Dow Corning began experiencing unfavorable industry conditions at its consolidated subsidiary Hemlock, a producer of high purity polycrystalline silicon for the semiconductor and solar industries, driven by over-capacity at all levels of the solar industry supply chain. This over-capacity led to significant declines in polycrystalline spot prices in the fourth quarter of 2011, and prices remained depressed throughout 2012. In 2013, markets stabilized, but prices remain significantly below historical levels.

Due to the conditions and uncertainties during 2012 described above, sales volume declined and production levels of certain operating assets were reduced. As a result, in the fourth quarter of 2012, Dow Corning determined that a polycrystalline silicon plant expansion previously delayed since the fourth quarter of 2011 would no longer be economically viable and made the decision to abandon this expansion activity. The abandonment resulted in an impairment charge of \$57 million, before tax, for Corning's share of the write down in the value of these construction-in-progress assets. Further, the startup of another polycrystalline silicon plant expansion that was expected to begin production in 2013 was delayed and its assets were idled.

In July 2012, the MOFCOM initiated antidumping and countervailing duty investigations of imports of solar-grade polycrystalline silicon products from the U.S. and Korea based on a petition filed by Chinese solar-grade polycrystalline silicon producers. The petition alleged that producers within these countries exported solar-grade polycrystalline silicon to China at less than fair value and that production of solar-grade polycrystalline silicon in the U.S. has been subsidized by the U.S. government. On July 18, 2013, MOFCOM announced its preliminary determination that China's solar-grade polycrystalline silicon industry suffered material damage because of dumping by producers in the U.S. and Korea. The Chinese authorities imposed provisional antidumping duties on producers in the U.S. and Korea ranging from 2.4% to 57.0%, including duties of 53.3% on future imports of solar-grade polycrystalline silicon product from the Dow Corning subsidiary into China. On September 16, 2013, the Chinese authorities imposed provisional countervailing duties of 6.5% on solar grade polycrystalline silicon products from the Dow Corning subsidiary. On January 20, 2014, MOFCOM issued a final determination. The final determination resulted in no change to the antidumping duties, and the countervailing duties were reduced to 2.1%. The requirement for customers to pay provisional duties on imports from solar-grade polycrystalline silicon producers became effective on July 24, 2013 for the antidumping duties and on September 20, 2013 for the countervailing duties, adjusted for the final determination. Dow Corning will not be subject to duties for previous sales.

In December 2014, Dow Corning determined its polycrystalline silicon plant expansion which was delayed in the fourth quarter of 2012, would not be economically viable and made the decision to permanently abandon the assets. This decision was made after review of sustained adverse market conditions and continued oversupply, the cost of operating the facility and the ongoing impact of tariffs on polycrystalline silicon imported into China. The decision to permanently cease use of these assets resulted in Dow Corning taking a pre-tax charge of approximately \$1.5 billion in the fourth quarter of 2014 (Corning's share after-tax: \$465 million). As a result of the significant change in the use of this asset, Dow Corning assessed whether the carrying value of all polycrystalline silicon assets might be impaired. Dow Corning's estimates of future undiscounted cash flows indicated the polycrystalline silicon asset group was recoverable.

In May 1995, Dow Corning filed for bankruptcy protection to address pending and claimed liabilities arising from breast implant product lawsuits. In 1995, Corning fully impaired its investment in Dow Corning after it filed for bankruptcy protection. Corning did not recognize net equity earnings from the second quarter of 1995 through the end of 2002. Corning began recognizing equity earnings in the first quarter of 2003 when management concluded that Dow Corning's emergence from bankruptcy was probable. Corning considers the \$171 million difference between the carrying value of its investment in Dow Corning and its 50% share of Dow Corning's equity to be permanent.

On June 1, 2004, Dow Corning emerged from Chapter 11 with a Plan of Reorganization (the “Plan”) which provided for the settlement or other resolution of implant claims. Under the Plan, Dow Corning established and agreed to fund a products liability settlement program (the “Settlement Facility”). The Plan contains a cap on the amount of payments required from Dow Corning to fund the Settlement Facility. Inclusive of insurance, Dow Corning has paid approximately \$1.8 billion to the Settlement Facility, and approximately \$1.3 billion has been paid to claimants out of the Settlement Facility. Dow Corning’s recorded liability related to implant matters (“Implant Liability”) was approximately \$1.7 billion at September 30, 2014, representing Dow Corning’s estimated remaining obligation for future funding of the Settlement Facility.

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## 7. Investments (continued)

During the fourth quarter of 2014, Dow Corning, with the assistance of a third-party advisor, developed an estimate of the future Implant Liability based on evidence that the actual funding required for the Settlement Facility is expected to be lower than the full funding cap set forth in the Plan. On December 12, 2014, Dow Corning reduced its Implant Liability by approximately \$1.3 billion (Corning's share after-tax: \$393 million). Previously, the Implant Liability was based on the full funding cap set forth in the Plan. The revised Implant Liability reflects Dow Corning's best estimate of its remaining obligations under the Plan. Should events or circumstances occur in the future which change Dow Corning's estimate of the remaining funding obligations, the Implant Liability will be revised. This adjustment does not affect Dow Corning's commitment or ability to fulfill its obligations under the settlement, and all claims that qualify under the settlement will be paid according to the terms of the Plan.

As a separate matter arising from its bankruptcy proceedings, Dow Corning is defending claims asserted by a number of commercial creditors who claim additional interest at default rates and enforcement costs, during the period from May 1995 through June 2004. As of December 31, 2014, Dow Corning has estimated the potential liability to these creditors to be within the range of \$99 million to \$324 million. As Dow Corning management believes no single amount within the range appears to be a better estimate than any other amount within the range, Dow Corning has recorded the minimum liability within the range. Should Dow Corning not prevail in this matter, Corning's equity earnings would be reduced by its 50% share of the amount in excess of \$99 million, net of applicable tax benefits. There are a number of other claims in the bankruptcy proceedings against Dow Corning awaiting resolution by the U.S. District Court, and it is reasonably possible that Dow Corning may record bankruptcy-related charges in the future. The remaining tort claims against Dow Corning are expected to be channeled by the Plan into facilities established by the Plan or otherwise defended by the Litigation Facility.

Pittsburgh Corning Corporation and Asbestos Litigation. Corning and PPG Industries, Inc. ("PPG") each own 50% of the capital stock of Pittsburgh Corning Corporation ("PCC"). Over a period of more than two decades, PCC and several other defendants were named in numerous lawsuits involving claims alleging personal injury from exposure to asbestos. On April 16, 2000, PCC filed for Chapter 11 reorganization in the U.S. Bankruptcy Court for the Western District of Pennsylvania. At the time PCC filed for bankruptcy protection, there were approximately 11,800 claims pending against Corning in state court lawsuits alleging various theories of liability based on exposure to PCC's asbestos products and typically requesting monetary damages in excess of one million dollars per claim. Corning has defended those claims on the basis of the separate corporate status of PCC and the absence of any facts supporting claims of direct liability arising from PCC's asbestos products.

#### PCC Plan of Reorganization

Corning, with other relevant parties, has been involved in ongoing efforts to develop a Plan of Reorganization that would resolve the concerns and objections of the relevant courts and parties. On November 12, 2013, the Bankruptcy Court issued a decision finally confirming an Amended PCC Plan of Reorganization (the "Amended PCC Plan" or the "Plan"). On September 30, 2014, the United States District Court for the Western District of Pennsylvania (the "District Court") affirmed the Bankruptcy Court's decision confirming the Amended PCC Plan. On October 30, 2014, one of the objectors to the Plan appealed the District Court's affirmation of the Plan to the United States Court of Appeals for the Third Circuit (the "Third Circuit Court of Appeals"), and that appeal is currently being scheduled for briefing. It will likely take many months for the Third Circuit Court of Appeals to render its decision.

Under the Plan as affirmed by the Bankruptcy Court and affirmed by the District Court, Corning is required to contribute its equity interests in PCC and Pittsburgh Corning Europe N.V. ("PCE"), a Belgian corporation, and to contribute \$290 million in a fixed series of payments, recorded at present value. Corning has the option to use its shares rather than cash to make these payments, but the liability is fixed by dollar value and not the number of



shares. The Plan requires Corning to make: (1) one payment of \$70 million one year from the date the Plan becomes effective and certain conditions are met; and (2) five additional payments of \$35 million, \$50 million, \$35 million, \$50 million, and \$50 million, respectively, on each of the five subsequent anniversaries of the first payment, the final payment of which is subject to reduction based on the application of credits under certain circumstances.

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## 7. Investments (continued)

## Non-PCC Asbestos Litigation

In addition to the claims against Corning related to its ownership interest in PCC, Corning is also the defendant in approximately 9,700 other cases (approximately 37,300 claims) alleging injuries from asbestos related to its Corhart business and similar amounts of monetary damages per case. When PCC filed for bankruptcy protection, the Court granted a preliminary injunction to suspend all asbestos cases against PCC, PPG and Corning – including these non-PCC asbestos cases (the “stay”). The stay remains in place as of the date of this filing. Under the Bankruptcy Court’s order confirming the Amended PCC Plan, the stay will remain in place until the Amended PCC Plan is finally affirmed by the District Court and the Third Circuit Court of Appeals. These non-PCC asbestos cases have been covered by insurance without material impact to Corning to date. As of December 31, 2014, Corning had received for these cases approximately \$19 million in insurance payments related to those claims. If and when the Bankruptcy Court’s confirmation of the Amended PCC Plan is finally affirmed, these non-PCC asbestos claims would be allowed to proceed against Corning. Corning has recorded in its estimated asbestos litigation liability an additional \$150 million for these and any future non-PCC asbestos cases.

## Total Estimated Liability for the Amended PCC Plan and the Non-PCC Asbestos Claims

The liability for the Amended PCC Plan and the non-PCC asbestos claims was estimated to be \$681 million at December 31, 2014, compared with an estimate of liability of \$690 million at December 31, 2013. The \$681 million liability is comprised of \$241 million of the fair value of PCE, \$290 million for the fixed series of payments, and \$150 million for the non-PCC asbestos litigation, all referenced in the preceding paragraphs. With respect to the PCE liability, at December 31, 2014 and 2013, the fair value of \$241 million and \$250 million of our interest in PCE significantly exceeded its carrying value of \$162 million and \$167 million, respectively. There have been no impairment indicators for our investment in PCE and we continue to recognize equity earnings of this affiliate. At the time Corning recorded this liability, it determined it lacked the ability to recover the carrying amount of its investment in PCC and its investment was other than temporarily impaired. As a result, we reduced our investment in PCC to zero. As the fair value in PCE is significantly higher than book value, management believes that the risk of an additional loss in an amount materially higher than the fair value of the liability is remote. With respect to the liability for other asbestos litigation, the liability for non-PCC claims was estimated based upon industry data for asbestos claims since Corning does not have recent claim history due to the injunction issued by the Bankruptcy Court. The estimated liability represents the undiscounted projection of claims and related legal fees over the next 20 years. The amount may need to be adjusted in future periods as more data becomes available; however, we cannot estimate any additional losses at this time. For the years ended December 31, 2014 and 2013, Corning recorded asbestos litigation income of \$9 million and expense of \$19 million, respectively. The entire obligation is classified as a non-current liability, as installment payments for the cash portion of the obligation are not planned to commence until more than 12 months after the Amended PCC Plan becomes effective and the PCE portion of the obligation will be fulfilled through the direct contribution of Corning’s investment in PCE (currently recorded as a non-current other equity method investment).

## Non-PCC Asbestos Cases Insurance Litigation

Several of Corning’s insurers have commenced litigation in state courts for a declaration of the rights and obligations of the parties under insurance policies affecting the non-PCC asbestos cases, including rights that may be affected by the potential resolutions described above. Corning is vigorously contesting these cases, and management is unable to predict the outcome of the litigation.

## 8. Acquisition

On January 15, 2014, Corning consummated a series of strategic and financial agreements pursuant to the Framework Agreement with Samsung Display, previously announced on October 22, 2013, to acquire the remaining common shares of Samsung Corning Precision Materials. The transaction is expected to strengthen product and technology collaborations between the two companies and allow Corning to extend its leadership in specialty glass and drive earnings growth.

The Acquisition was accounted for under the purchase method of accounting in accordance with business combination accounting guidance. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed, based on their fair value on the date of Acquisition. The fair value was determined based on the fair value of consideration transferred for the remaining equity interest of Samsung Display's shares.

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## 8. Acquisition (continued)

In connection with the purchase of Samsung Display's equity interest in Samsung Corning Precision Materials pursuant to the Framework Agreement, the Company designated a new series of its preferred stock as Fixed Rate Cumulative Convertible Preferred Stock, Series A, par value \$100 per share ("Preferred Stock"). As contemplated by the Framework Agreement, Samsung Display became the owner of 2,300 shares of Preferred Stock (with an issue price of \$1 million per share), of which 1,900 shares were issued in connection with the Acquisition and 400 shares were issued for cash.

Corning issued 1,900 shares of Preferred Stock as consideration in the Acquisition of Samsung Corning Precision Materials which had a fair value of \$1.9 billion on the acquisition date. The fair value was determined using an option pricing model based on the features of the Preferred Stock. That measure is based on Level 2 inputs observable in the market such as Corning's common stock price and dividend yield.

The Acquisition also includes a contingent consideration arrangement that potentially requires additional consideration to be paid between the parties in 2018: one based on projections of future revenues generated by the business of Samsung Corning Precision Materials for the period between the acquisition date and December 31, 2017, which is subject to a cap of \$665 million; and another based on the volumes of certain sales during the same period, which is subject to a separate cap of \$100 million. The fair value of the potential receipt of the contingent consideration in 2018 in the amount of \$196 million at date of acquisition and \$445 million at December 31, 2014 was estimated by applying an option pricing model using the Company's projections of Corning Precision Materials' future revenues. Changes in the fair value of the contingent consideration in future periods are valued using an option pricing model and are recorded in Corning's results in the period of the change. Corning recorded \$249 million of pre-tax reductions in Selling, general and administrative expenses for the year ended December 31, 2014 to reflect the increase in the fair value of the potential receipt of the contingent consideration.

The following table summarizes the total fair value of Samsung Corning Precision Materials at the acquisition date including the net consideration transferred to acquire the remaining 42.5% of Samsung Corning Precision Materials, the fair value of Corning's non-controlling interest in Samsung Corning Precision Materials pre- and post-acquisition and the amount of the implied fair value of the total entity for the purpose of allocating the purchase price to the acquired net assets.

|   | Samsung<br>Display | Corning<br>Incorporated | Samsung<br>Corning<br>Precision<br>Materials |
|---|--------------------|-------------------------|--|
| Net consideration applied to acquired assets                |                    |                         |  |
| Ownership percentage  | 42.5%              | 57.5%                   | 100%   |
| Fair value based on \$1.9 billion consideration transferred | \$ 1,911           | \$ 2,588                | \$ 4,499                                     |
| Less contingent consideration - receivable                  | (196)              | (265)                   | (461)  |
| Net fair value of consideration @ 100%                      | 1,715              | 2,323                   | 4,038  |
| Corning's loss on royalty contract                          | (136)              | (184)                   | (320)  |
| Fair value post-acquisition                                 | \$ 1,579           | \$ 2,139                | \$ 3,718                                     |
| Corning's fair value 57.5% post-acquisition                 | 2,139              |                         |  |
| Total fair value at January 15, 2014                        | \$ 3,718           |                         |  |

The \$1.9 billion fair value of consideration transferred for the remaining 42.5% interest in Samsung Corning Precision Materials plus the fair value of Corning's pre-acquisition fair value less the contingent consideration due Corning as of the acquisition date results in a net fair value for the total entity of \$4 billion.

As a result of the acquisition of Samsung Corning Precision Materials, Corning reacquired its technology license rights and effectively settled its pre-existing royalty contract with the acquired entity, Samsung Corning Precision Materials. With regard to the reacquired right, Corning engaged a third-party specialist to assist in assessing the fair value of this right and determined that the reacquired right had a value of zero. In addition, the Company assessed whether this royalty contract was favorable or unfavorable to Corning. It was determined that the contractual royalty rate of 3% as compared to the then current market rate of 12% was unfavorable to Corning. The effective settlement of the contract was valued using the Income Approach; specifically, a relief from royalty method. The amount by which the contract was unfavorable to Corning when compared to current market transactions for similar items resulted in a loss of \$320 million which was recorded on the acquisition date, representing 100% of the loss on the effective settlement of the contract. There were no stated contractual settlement provisions or previously recorded assets or liabilities to consider when determining the value associated with the settlement.

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## 8. Acquisition (continued)

Because the pre-existing contract was unfavorable to Corning, a portion of the consideration transferred was deemed to be applicable to the effective settlement of the royalty contract between Corning and the acquiree, Samsung Corning Precision Materials. The \$320 million loss attributable to the settlement of the pre-existing arrangement was accounted for as a separate transaction from the business combination as follows:

- At acquisition, since the contract with Samsung Corning Precision Materials was effectively settled, Corning recognized a loss of \$320 million. Of the \$320 million, \$184 million effectively offset the portion of the gain on previously held equity investment attributable to Corning's interest in the royalty contract. As a result, the pre-acquisition fair value of Corning's 57.5% share of \$2.3 billion decreased to the fair value of \$2.1 billion post-acquisition; and
- At acquisition, since the seller, Samsung Display, was a 42.5% shareholder of Samsung Corning Precision Materials, 42.5%, or \$136 million, of the \$320 million loss to effectively settle the contract reduced the consideration transferred to acquire Samsung Display's interest in Samsung Corning Precision Materials. Accordingly, \$136 million of the consideration transferred was treated separately from the purchase price, resulting in the implied consideration transferred of approximately \$1.6 billion.

The net economic effect to Corning following the transaction was a net loss of \$136 million, constituting a \$320 million loss due to Corning's unfavorable contract and its share of the favorable contract in Samsung Corning Precision Materials of \$184 million.

The gain on the previously held equity investment was calculated based on the fair value of the entity immediately preceding the Acquisition. As the pre-existing contract was treated as a separate transaction, the pre-existing contract was not taken into consideration when calculating the gain on the previously held equity interest.

The net gain on previously owned equity was calculated as follows:

|   |          |
|---|----------|
| December 2013 Investment Balance                  | \$ 3,709 |
| Dividend (1)                                      | (1,574)  |
| Other   | (18)     |
| Net investment book balance at 1/15/2014          | \$ 2,117 |
| Fair value Samsung Corning Precision Materials    | \$ 4,038 |
| 57.5% of Samsung Corning Precision Materials (2)  | 2,323    |
| Working capital adjustment and other              | 52       |
| 57.5% of the pre-acquisition fair value of assets | \$ 2,375 |
| Gain on previously held equity investment (2)     | \$ 258   |
| Translation gain                                  | 136      |
| Net gain  | \$ 394   |

- (1) In conjunction with the Framework Agreement, the parties agreed to have Samsung Corning Precision Materials distribute all cash and cash equivalents as a dividend to the shareholders of record as of December 31, 2013. The dividend was not part of the purchase price as the agreement was to distribute cash and cash equivalents as a dividend to the shareholders as soon as practicable. As such, at acquisition Corning did not have legal title to the cash to be distributed, although the dividend was distributed subsequent to the acquisition date. Therefore, the portion of Corning's share of the \$1.6 billion dividend received was accounted for in Corning's consolidated financial statements as if the dividend occurred at or immediately prior to the date of acquisition at which time Samsung Corning Precision Materials was still an equity method investment in Corning's consolidated financial

statements.

- (2) As Corning was a 57.5% shareholder at the date of acquisition, immediately preceding the acquisition of Samsung Corning Precision Materials, Corning recognized an asset and respective gain as part of the calculation of its previously held equity investment which included approximately \$184 million attributed to its economic interest in the royalty contract.

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## 8. Acquisition (continued)

The following table summarizes the amounts of identified assets acquired and liabilities assumed at acquisition date and recorded measurement period adjustments. Corning has completed its accounting for the Acquisition and its review of deferred taxes.

Recognized amounts of identified assets acquired and liabilities assumed (in millions):

|   |         |
|---|---------|
| Cash and cash equivalents (1)   | \$ 133  |
| Trade receivables (3)   | 357     |
| Inventory (3)   | 105     |
| Property, plant and equipment (3)                                     | 3,595   |
| Other current and non-current assets (3)                              | 71      |
| Debt – current  | (32)    |
| Accounts payable and accrued expenses (3)                             | (357)   |
| Other current and non-current liabilities (3)                         | (294)   |
| Total identified net assets (3)                                       | 3,578   |
| Non-controlling interests   | 15      |
| Fair value of Samsung Corning Precision Materials on acquisition date | (3,718) |
| Goodwill (2)(3)   | \$ 125  |

(1) Cash and cash equivalents are presented net of the 2014 dividend distributed subsequent to the Acquisition, in the amount of \$2.8 billion.

(2) The goodwill recognized is not deductible for U.S. income tax purposes. The goodwill was allocated to the Display Technologies segment.

(3) During 2014, the Company recorded total measurement period adjustments of \$60 million for the Acquisition of Corning Precision Materials primarily related to accrual of contingent liabilities and employee benefit obligations.

The goodwill is primarily attributable to the workforce of the acquired business and the synergies expected to result from the integration of Corning Precision Materials. Acquisition-related costs of \$93 million in the year ended December 31, 2014 included costs for post-Acquisition compensation expense, legal, accounting, valuation and other professional services and were included in selling, general and administrative expenses in the Consolidated Statements of Income. Since the date of acquisition, the consolidation of Corning Precision Materials added \$1,761 million to Net sales. The impact to Net income of the consolidation of Corning Precision Materials is impracticable to calculate due to the level of integration within the Display Technologies segment and the significant amount of estimates that would be required.

#### Unaudited Pro Forma Financial Information

The unaudited pro forma combined consolidated statement of income for the year ended December 31, 2013, was derived from the unaudited financial statements of Corning and Samsung Corning Precision Materials for the year ended December 31, 2013, and is presented to show how Corning might have appeared had the Acquisition occurred as of January 1, 2013.

The unaudited pro forma combined consolidated financial information was prepared pursuant to the rules and regulations of the SEC. The unaudited pro forma adjustments reflecting the Acquisition have been prepared in accordance with the business combination accounting guidance and reflect the allocation of the purchase price to the acquired assets and liabilities based upon the fair values, using the assumptions set forth above.

Unaudited Pro Forma Financial Information (in millions, except per share data):



|  | Twelve months<br>ended<br>December 31,<br>2013 |
|--|--|
| Net sales  | \$ 9,871                                       |
| Net income attributable to Corning Incorporated – basic earnings per share     | \$ 2,327                                       |
| Net income – attributable to Corning Incorporated – diluted earnings per share | \$ 2,425                                       |
| Earnings per common share attributable to common shareholders                  |  |
| Basic  | \$ 1.60  |
| Diluted  | \$ 1.54  |
| Shares used in computing per share amounts                                     |  |
| Basic  | 1,452  |
| Diluted  | 1,577  |

There were no other significant acquisitions for the year ended December 31, 2014.

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## 8. Acquisition (continued)

On October 31, 2012, Corning acquired all of the shares of Discovery Labware, Inc. and Plasso Technology Limited and certain other assets (collectively referred to as “Purchased Assets”) from Becton Dickinson and Company for approximately \$739 million. The Purchased Assets constitute a business; therefore, the acquisition was accounted for as a business combination. The business, referred to as Discovery Labware, designs, manufactures, markets and supplies cell culture, other laboratory reagents, core and advanced consumables for basic and applied research for life scientists, clinical researchers, and laboratory professionals globally.

The purchase price of the acquisition was allocated to the net tangible and other intangible assets acquired, with the remainder recorded as goodwill on the basis of fair value as follows (in millions):

|                                    |    |     |
|------------------------------------|----|-----|
| Inventory and other current assets | \$ | 74  |
| Fixed Assets                       |    | 81  |
| Other intangible assets            |    | 279 |
| Net tangible and intangible assets | \$ | 434 |
| Purchase price                     |    | 739 |
| Goodwill (1)                       | \$ | 305 |

(1)The goodwill recognized is deductible for U.S. income tax purposes. The goodwill was allocated to the Life Sciences segment.

Goodwill is primarily related to the value of the Discovery Labware product portfolio and distribution network and its combination with Corning’s existing life sciences platform, as well as synergies and other intangibles that do not qualify for separate recognition. Other intangible assets consist mainly of distributor relationships, trademark and trade names and are amortized over a useful life of 20 years. Acquisition-related costs of \$22 million in the twelve months ended December 31, 2012 included costs for legal, accounting, valuation and other professional services and were included in selling, general and administrative expense in the Consolidated Statements of Income. Supplemental pro forma information was not provided because the purchased assets are not material to Corning’s consolidated financial statements.

## 9. Property, Plant and Equipment, Net of Accumulated Depreciation

Property, plant and equipment, net of accumulated depreciation follow (in millions):

|                          | December 31, |          |
|--------------------------|--------------|----------|
|                          | 2014         | 2013     |
| Land                     | \$ 458       | \$ 121   |
| Buildings                | 5,470        | 4,175    |
| Equipment                | 13,848       | 12,286   |
| Construction in progress | 1,322        | 1,084    |
|                          | 21,098       | 17,666   |
| Accumulated depreciation | (8,332)      | (7,865)  |
| Total                    | \$ 12,766    | \$ 9,801 |

The increase in Property, plant and equipment, net of accumulated depreciation in 2014 is primarily driven by the Acquisition of Samsung Corning Precision Materials, which added \$3.6 billion to this balance at acquisition.

Approximately \$40 million, \$35 million and \$74 million of interest costs were capitalized as part of Property, plant and equipment, net of accumulated depreciation, in 2014, 2013 and 2012, respectively.

Manufacturing equipment includes certain components of production equipment that are constructed of precious metals. At December 31, 2014 and 2013, the recorded value of precious metals totaled \$3.1 billion and \$2.2 billion, respectively. Depletion expense for precious metals in the years ended December 31, 2014, 2013 and 2012 was \$21 million, \$20 million and \$20 million, respectively. The consolidation of Corning Precision Materials added approximately \$1.1 billion in precious metals and approximately \$4 million of depletion expense for the year ended December 31, 2014.

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## 10. Goodwill and Other Intangible Assets

## Goodwill

Changes in the carrying amount of goodwill for the twelve months ended December 31, 2014 and 2013 were as follows (in millions):

|  | Optical<br>Communications | Display<br>Technologies | Specialty<br>Materials | Life<br>Sciences | Total    |
|--|---------------------------|-------------------------|------------------------|------------------|----------|
| Balance at December 31, 2012               | \$ 209                    | \$ 9                    | \$ 150                 | \$ 606           | \$ 974   |
| Acquired goodwill (2)                      | 32                        |                         |                        |                  | 32       |
| Measurement period<br>adjustment (1)       |                           |                         |                        | (4)              | (4)      |
| Foreign currency translation<br>adjustment | (1)                       |                         |                        | 1                |          |
| Balance at December 31, 2013               | \$ 240                    | \$ 9                    | \$ 150                 | \$ 603           | \$ 1,002 |
| Acquired goodwill (3)                      |                           | 68                      | 54                     |                  | 122      |
| Measurement period<br>adjustment (4)       |                           | 60                      |                        |                  | 60       |
| Foreign currency translation<br>adjustment | (2)                       | (3)                     | (6)                    | (23)             | (34)     |
| Balance at December 31, 2014               | \$ 238                    | \$ 134                  | \$ 198                 | \$ 580           | \$ 1,150 |

(1) The Company recorded the acquisition of the Discovery Labware business of Becton Dickinson and Company in the fourth quarter of 2012. In the second quarter of 2013, Corning recorded measurement period adjustments. Refer to Note 8 (Acquisition) to the Consolidated Financial Statements for additional information.

(2) The company recorded a small acquisition and consolidated an equity company due to a change in control in the second quarter of 2013.

(3) The Company recorded the Acquisition of Samsung Corning Precision Materials and a small acquisition in the Specialty Materials segment in the first quarter of 2014. Refer to Note 8 (Acquisition) to the Consolidated Financial Statements for additional information on the Acquisition of Samsung Corning Precision Materials.

(4) In the year ended December 31, 2014, the Company recorded measurement period adjustments of \$60 million for the Acquisition of Samsung Corning Precision Materials primarily related to the accrual of contingent liabilities and employee benefit obligations.

Corning's gross goodwill balance for the fiscal years ended December 31, 2014 and 2013 were \$7.6 billion and \$7.5 billion, respectively. Accumulated impairment losses were \$6.5 billion for the fiscal years ended December 31, 2014 and 2013, respectively, and were generated entirely through goodwill impairments related to the Optical Communications segment.

## Other Intangible Assets

Other intangible assets follow (in millions):

|  | 2014  |                             | December 31, |       | 2013                        |     |
|--|-------|-----------------------------|--------------|-------|-----------------------------|-----|
|  | Gross | Accumulated<br>amortization | Net          | Gross | Accumulated<br>amortization | Net |
|  |       |                             |              |       |                             |     |

|                                   |               |               |               |               |               |               |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Amortized intangible assets:      |               |               |               |               |               |               |
| Patents, trademarks & trade names | \$ 302        | \$ 149        | \$ 153        | \$ 290        | \$ 138        | \$ 152        |
| Customer list and other           | 411           | 67            | 344           | 436           | 48            | 388           |
| <b>Total</b>                      | <b>\$ 713</b> | <b>\$ 216</b> | <b>\$ 497</b> | <b>\$ 726</b> | <b>\$ 186</b> | <b>\$ 540</b> |

Amortized intangible assets are primarily related to the Optical Communications and Life Sciences segments. The net carrying amount of intangible assets decreased by \$43 million during the year ended December 31, 2014, primarily due to amortization of \$33 million and foreign currency translation adjustments of \$17 million, offset by a small acquisition.

Amortization expense related to these intangible assets is estimated to be \$33 million for 2015 and \$32 million annually from 2016 to 2019.

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## 11. Other Assets and Other Liabilities

Other assets follow (in millions):

|                                | December 31, |        |
|--------------------------------|--------------|--------|
|                                | 2014         | 2013   |
| <b>Current assets:</b>         |              |        |
| Derivative instruments         | \$ 687       | \$ 372 |
| Other current assets           | 412          | 483    |
| Other current assets           | \$ 1,099     | \$ 855 |
| <b>Non-current assets:</b>     |              |        |
| Derivative instruments         | \$ 847       | \$ 90  |
| Contingent consideration asset | 445          |        |
| Other non-current assets       | 430          | 383    |
| Other assets                   | \$ 1,722     | \$ 473 |

Other liabilities follow (in millions):

|                                 | December 31, |          |
|---------------------------------|--------------|----------|
|                                 | 2014         | 2013     |
| <b>Current liabilities:</b>     |              |          |
| Wages and employee benefits     | \$ 562       | \$ 445   |
| Income taxes                    | 106          | 139      |
| Other current liabilities       | 623          | 370      |
| Other accrued liabilities       | \$ 1,291     | \$ 954   |
| <b>Non-current liabilities:</b> |              |          |
| Asbestos litigation             | \$ 681       | \$ 690   |
| Other non-current liabilities   | 1,365        | 793      |
| Other liabilities               | \$ 2,046     | \$ 1,483 |

**Asbestos Litigation**

Corning and PPG each own 50% of the capital stock of PCC. Over a period of more than two decades, PCC and several other defendants were named in numerous lawsuits involving claims alleging personal injury from exposure to asbestos. The liability for the Amended PCC Plan and the non-PCC asbestos claims was estimated to be \$681 million at December 31, 2014, compared with an estimate of liability of \$690 million at December 31, 2013. The \$681 million liability is comprised of \$241 million of the fair value of PCE, \$290 million for the fixed series of payments, and \$150 million for the non-PCC asbestos litigation, all referenced in the preceding paragraphs. With respect to the liability for other asbestos litigation, the estimated liability for non-PCC claims represents the undiscounted projection of claims and related legal fees over the next 20 years. The amount may need to be adjusted in future periods as more data becomes available; however, we cannot estimate any additional losses at this time. The entire obligation is classified as a non-current liability, as installment payments for the cash portion of the obligation are not planned to commence until more than 12 months after the Amended PCC Plan becomes effective and the PCE portion of the obligation will be fulfilled through the direct contribution of Corning's investment in PCE (currently recorded as a non-current other equity method investment). Refer to Note 7 (Investments) to the Consolidated Financial Statements for additional information on the asbestos litigation.

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## 12. Debt

(In millions)

|   | December 31, |          |
|---|--------------|----------|
|   | 2014         | 2013     |
| Current portion of long-term debt                       | \$ 36        | \$ 21    |
| <b>Long term debt</b>                                   |              |          |
| Debentures, 8.875%, due 2016                            | \$ 66        | \$ 67    |
| Debentures, 1.45%, due 2017                             | 250          | 250      |
| Debentures, 6.625%, due 2019                            | 243          | 238      |
| Debentures, 4.25%, due 2020                             | 287          | 276      |
| Debentures, 8.875%, due 2021                            | 69           | 70       |
| Debentures, 3.70%, due 2023                             | 249          | 249      |
| Medium-term notes, average rate 7.66%, due through 2023 | 45           | 45       |
| Debentures, 7.00%, due 2024                             | 99           | 99       |
| Debentures, 6.85%, due 2029                             | 170          | 172      |
| Debentures, callable, 7.25%, due 2036                   | 249          | 249      |
| Debentures, 4.70%, due 2037                             | 250          | 250      |
| Debentures, 5.75%, due 2040                             | 398          | 398      |
| Debentures, 4.75%, due 2042                             | 499          | 499      |
| Other, average rate 4.94%, due through 2042             | 389          | 431      |
| Total long term debt                                    | 3,263        | 3,293    |
| Less current portion of long-term debt                  | 36           | 21       |
| Long-term debt  | \$ 3,227     | \$ 3,272 |

At December 31, 2014 and 2013, the weighted-average interest rate on current portion of long-term debt was 2.5% and 2.6%, respectively.

Based on borrowing rates currently available to us for loans with similar terms and maturities, the fair value of long-term debt was \$3.6 billion at December 31, 2014 and \$3.5 billion at December 31, 2013. The measurement of the fair value of long term debt was determined using Level 2 inputs.

The following table shows debt maturities by year at December 31, 2014 (in millions)\*:

| 2015 | 2016 | 2017  | 2018 | 2019  | Thereafter |
|------|------|-------|------|-------|------------|
| \$36 | \$71 | \$257 | \$3  | \$253 | \$2,639    |

\*Excludes interest rate swap gains and bond discounts.

## Debt Issuances and Retirements

## 2014

- In the third quarter of 2014, we amended and restated our existing revolving credit facility. The amended facility provides a \$2 billion unsecured multi-currency line of credit and expires on September 30, 2019. At December 31, 2014, there were no outstanding amounts on this credit facility. The facility includes affirmative and negative covenants that Corning must comply with, including a leverage (debt to capital ratio) financial covenant. As of December 31, 2014, we were in compliance with all of the covenants.



2013

- In the first quarter of 2013, we amended and restated our then-existing revolving credit facility. The 2013 amended facility provided a \$1 billion unsecured multi-currency line of credit that would have expired in March 2018. This facility was amended and restated by the \$2 billion facility entered into in the third quarter of 2014.
- In the first quarter of 2013, Corning repaid the aggregate principal amount and accrued interest outstanding on the credit facility entered into in the second quarter of 2011 that allowed Corning to borrow up to Chinese renminbi (RMB) 4 billion. The total amount repaid was approximately \$500 million. Upon repayment, this facility was terminated.

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## 12. Debt (continued)

- In the second quarter of 2013, the Company established a commercial paper program on a private placement basis, pursuant to which we may issue short-term, unsecured commercial paper notes up to a maximum aggregate principal amount outstanding at any time of \$1 billion. Under this program, the Company may issue the notes from time to time and will use the proceeds for general corporate purposes. The maturities of the notes will vary, but may not exceed 390 days from the date of issue. The interest rates will vary based on market conditions and the ratings assigned to the notes by credit rating agencies at the time of issuance. The Company's revolving credit facility is available to support obligations under the commercial paper program, if needed. At December 31, 2013, we did not have any outstanding commercial paper.
- In the fourth quarter of 2013, we issued \$250 million of 3.70% senior unsecured notes that mature on November 15, 2023. The net proceeds of approximately \$248 million were used for general corporate purposes.
- In the fourth quarter of 2013, we recorded a financing obligation in the approximate amount of \$230 million for a new LCD glass substrate facility in China.

## 2012

- In the first quarter of 2012, we issued \$500 million of 4.75% senior unsecured notes that mature on March 15, 2042 and \$250 million of 4.70% senior unsecured notes that mature on March 15, 2037. The net proceeds of \$742 million were used for general corporate purposes.
  - In the fourth quarter of 2012, we completed the following debt-related transactions:
    - o We issued \$250 million of 1.45% senior unsecured notes that mature on November 15, 2017. The net proceeds of \$248 million from the offering were used for general corporate purposes.
    - o We repurchased \$13 million of our 8.875% senior unsecured notes due 2021, \$11 million of our 8.875% senior unsecured notes due 2016, and \$51 million of our 6.75% senior unsecured notes due 2013. Additionally, we redeemed \$100 million of our 5.90% senior unsecured notes due 2014 and \$74 million of our 6.20% senior unsecured notes due 2016. We recognized a pre-tax loss of \$26 million upon the early redemption of these notes.
- In 2012, we borrowed the equivalent of approximately \$377 million from a Chinese renminbi credit facility that a wholly-owned subsidiary entered into in the second quarter of 2011.

## 13. Employee Retirement Plans

## Defined Benefit Plans

We have defined benefit pension plans covering certain domestic and international employees. Our funding policy has been to contribute, as necessary, an amount in excess of the minimum requirements in order to achieve the Company's long-term funding targets. In 2014, we made voluntary cash contributions of \$85 million to our domestic defined benefit pension plan and contributed \$45 million to our international pension plans. In 2013, we did not contribute to our domestic defined benefit pension plan and contributed \$5 million to our international pension plans. Although we will not be subject to any mandatory contributions in 2015, we anticipate making voluntary cash contributions of up to \$65 million to our domestic pension plan and up to \$28 million to our international pension plans in 2015.

Corning offers postretirement plans that provide health care and life insurance benefits for retirees and eligible dependents. Certain employees may become eligible for such postretirement benefits upon reaching retirement age and service requirements. For current retirees (including surviving spouses) and active employees eligible for the salaried retiree medical program, we have placed a "cap" on the amount we will contribute toward retiree medical coverage in the future. The cap is equal to 120% of our 2005 contributions toward retiree medical benefits. Once our contributions toward salaried retiree medical costs reach this cap, impacted retirees will have to pay the excess amount

in addition to their regular contributions for coverage. This cap was attained for post-65 retirees in 2008 and has impacted their contribution rate in 2009 and going forward. The pre-65 retirees triggered the cap in 2010, which has impacted their contribution rate in 2011 and going forward. Furthermore, employees hired or rehired on or after January 1, 2007 will be eligible for Corning retiree medical benefits upon retirement; however, these employees will pay 100% of the cost.

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## 13. Employee Retirement Plans (continued)

## Obligations and Funded Status

The change in benefit obligation and funded status of our employee retirement plans follows (in millions):

| December 31,  | Total<br>pension benefits |          | Domestic<br>pension benefits |          | International<br>pension benefits |          |
|---|---------------------------|----------|------------------------------|----------|-----------------------------------|----------|
|   | 2014                      | 2013     | 2014                         | 2013     | 2014                              | 2013     |
| <b>Change in benefit obligation</b>                   |                           |          |                              |          |                                   |          |
| Benefit obligation at beginning of year               | \$ 3,300                  | \$ 3,630 | \$ 2,844                     | \$ 3,198 | \$ 456                            | \$ 432   |
| Service cost  | 82                        | 70       | 55                           | 60       | 27                                | 10       |
| Interest cost   | 160                       | 131      | 137                          | 115      | 23                                | 16       |
| Plan participants' contributions                      | 1                         | 1        | 1                            | 1        |                                   |          |
| Acquisitions  | 103                       |          |                              |          | 103                               |          |
| Amendments  | 25                        |          | 25                           |          |                                   |          |
| Actuarial loss (gain)                                 | 394                       | (362)    | 327                          | (368)    | 67                                | 6        |
| Other   | (3)                       | 2        |                              | 2        | (3)                               |          |
| Benefits paid   | (207)                     | (177)    | (167)                        | (164)    | (40)                              | (13)     |
| Foreign currency translation                          | (46)                      | 5        |                              |          | (46)                              | 5        |
| Benefit obligation at end of year                     | \$ 3,809                  | \$ 3,300 | \$ 3,222                     | \$ 2,844 | \$ 587                            | \$ 456   |
| <b>Change in plan assets</b>                          |                           |          |                              |          |                                   |          |
| Fair value of plan assets at beginning of year        | \$ 2,896                  | \$ 2,975 | \$ 2,596                     | \$ 2,684 | \$ 300                            | \$ 291   |
| Actual gain on plan assets                            | 355                       | 71       | 287                          | 65       | 68                                | 6        |
| Employer contributions                                | 147                       | 20       | 97                           | 10       | 50                                | 10       |
| Plan participants' contributions                      | 1                         | 1        | 1                            | 1        |                                   |          |
| Acquisitions  | 97                        |          |                              |          | 97                                |          |
| Benefits paid   | (207)                     | (177)    | (167)                        | (164)    | (40)                              | (13)     |
| Foreign currency translation                          | (26)                      | 6        |                              |          | (26)                              | 6        |
| Fair value of plan assets at end of year              | \$ 3,263                  | \$ 2,896 | \$ 2,814                     | \$ 2,596 | \$ 449                            | \$ 300   |
| <b>Funded status at end of year</b>                   |                           |          |                              |          |                                   |          |
| Fair value of plan assets                             | \$ 3,263                  | \$ 2,896 | \$ 2,814                     | \$ 2,596 | \$ 449                            | \$ 300   |
| Benefit obligations                                   | (3,809)                   | (3,300)  | (3,222)                      | (2,844)  | (587)                             | (456)    |
| Funded status of plans                                | \$ (546)                  | \$ (404) | \$ (408)                     | \$ (248) | \$ (138)                          | \$ (156) |
| <b>Amounts recognized in the consolidated balance</b> |                           |          |                              |          |                                   |          |

## sheets consist of:

|                      |          |          |          |          |          |          |
|----------------------|----------|----------|----------|----------|----------|----------|
| Noncurrent asset     | \$ 47    | \$ 23    |          | \$ 15    | \$ 47    | \$ 8     |
| Current liability    | (41)     | (15)     | \$ (30)  | (10)     | (11)     | (5)      |
| Noncurrent liability | (552)    | (412)    | (378)    | (253)    | (174)    | (159)    |
| Recognized liability | \$ (546) | \$ (404) | \$ (408) | \$ (248) | \$ (138) | \$ (156) |

Amounts recognized in  
accumulated other  
comprehensive income  
consist of:

|                                     |        |        |        |        |       |       |
|-------------------------------------|--------|--------|--------|--------|-------|-------|
| Net actuarial loss                  | \$ 308 | \$ 132 | \$ 278 | \$ 83  | \$ 30 | \$ 49 |
| Prior service cost (credit)         | 41     | 21     | 44     | 27     | (3)   | (6)   |
| Amount recognized at<br>end of year | \$ 349 | \$ 153 | \$ 322 | \$ 110 | \$ 27 | \$ 43 |

The accumulated benefit obligation for defined benefit pension plans was \$3.6 billion and \$3.2 billion at December 31, 2014 and 2013, respectively.

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## 13. Employee Retirement Plans (continued)

| December 31,   | Postretirement benefits |          |
|--|-------------------------|----------|
|  | 2014                    | 2013     |
| Change in benefit obligation   |                         |          |
| Benefit obligation at beginning of year                                  | \$ 815                  | \$ 987   |
| Service cost   | 11                      | 13       |
| Interest cost  | 38                      | 39       |
| Plan participants' contributions   | 7                       | 14       |
| Amendments   | (5)                     | (4)      |
| Actuarial loss (gain)  | 49                      | (178)    |
| Other  |                         | 5        |
| Benefits paid  | (56)                    | (61)     |
| Medicare subsidy received  | 3                       | 1        |
| Foreign currency translation   |                         | (1)      |
| Benefit obligation at end of year  | \$ 862                  | \$ 815   |
| Funded status at end of year   |                         |          |
| Fair value of plan assets  | \$ 0                    | \$ 0     |
| Benefit obligations  | (862)                   | (815)    |
| Funded status of plans   | \$ (862)                | \$ (815) |
| Amounts recognized in the consolidated balance sheets consist of:        |                         |          |
| Current liability  | \$ (48)                 | \$ (49)  |
| Noncurrent liability   | (814)                   | (766)    |
| Recognized liability   | \$ (862)                | \$ (815) |
| Amounts recognized in accumulated other comprehensive income consist of: |                         |          |
| Net actuarial loss   | \$ 132                  | \$ 82    |
| Prior service credit   | (27)                    | (29)     |
| Amount recognized at end of year   | \$ 105                  | \$ 53    |

The following information is presented for pension plans where the projected benefit obligation as of December 31, 2014 and 2013 exceeded the fair value of plan assets (in millions):

|                              | December 31, |        |
|------------------------------|--------------|--------|
|                              | 2014         | 2013   |
| Projected benefit obligation | \$ 3,425     | \$ 447 |
| Fair value of plan assets    | \$ 2,831     | \$ 20  |

In 2014, the fair value of plan assets exceeded the projected benefit obligation for the United Kingdom, the South Korea and one of the France pension plans.

The following information is presented for pension plans where the accumulated benefit obligation as of December 31, 2014 and 2013 exceeded the fair value of plan assets (in millions):

| December 31, |      |
|--------------|------|
| 2014         | 2013 |

|                                |        |        |
|--------------------------------|--------|--------|
| Accumulated benefit obligation | \$ 479 | \$ 417 |
| Fair value of plan assets      | \$ 17  | \$ 20  |

In 2014, the fair value of plan assets exceeded the accumulated benefit obligation for the United States, the United Kingdom, the South Korea and one of the France pension plans.

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## 13. Employee Retirement Plans (continued)

The components of net periodic benefit expense for our employee retirement plans follow (in millions):

| December 31,   | Total pension benefits |         |       | Domestic pension benefits |         |       | International pension benefits |      |      |
|--|------------------------|---------|-------|---------------------------|---------|-------|--------------------------------|------|------|
|  | 2014                   | 2013    | 2012  | 2014                      | 2013    | 2012  | 2014                           | 2013 | 2012 |
| Service cost   | \$ 82                  | \$ 70   | \$ 62 | \$ 55                     | \$ 60   | \$ 53 | \$ 27                          | \$10 | \$ 9 |
| Interest cost  | 160                    | 131     | 154   | 137                       | 115     | 138   | 23                             | 16   | 16   |
| Expected return on plan assets   | (174)                  | (169)   | (161) | (159)                     | (158)   | (151) | (15)                           | (11) | (10) |
| Amortization of prior service cost (credit)  | 6                      | 5       | 8     | 7                         | 6       | 9     | (1)                            | (1)  | (1)  |
| Recognition of actuarial (gain) loss   | 29                     | (30)    | 217   | 4                         | (41)    | 187   | 25                             | 11   | 30   |
| Total net periodic benefit expense   | \$103                  | \$ 7    | \$280 | \$ 44                     | \$ (18) | \$236 | \$ 59                          | \$25 | \$44 |
| Other changes in plan assets and benefit obligations recognized in other comprehensive income: |                        |         |       |                           |         |       |                                |      |      |
| Curtailement effects   | \$ (3)                 |         |       |                           |         |       | \$ (3)                         |      |      |
| Settlements  | (2)                    |         |       |                           |         |       | (2)                            |      |      |
| Current year actuarial loss (gain)   | 212                    | \$(264) | \$257 | \$198                     | \$(274) | \$218 | 14                             | \$10 | \$39 |
| Recognition of actuarial gain (loss)   | (29)                   | 30      | (217) | (4)                       | 41      | (187) | (25)                           | (11) | (30) |
| Current year prior service cost  | 25                     |         | 3     | 25                        |         | 3     |                                |      |      |
| Amortization of prior service (cost) credit  | (6)                    | (5)     | (8)   | (7)                       | (6)     | (9)   | 1                              | 1    | 1    |
| Total recognized in other comprehensive (income) loss  | \$197                  | \$(239) | \$ 35 | \$212                     | \$(239) | \$ 25 | \$(15)                         | \$ 0 | \$10 |



|   |       |         |       |       |         |       |       |      |      |
|---|-------|---------|-------|-------|---------|-------|-------|------|------|
| Total recognized in net periodic benefit cost and other comprehensive (income) loss | \$300 | \$(232) | \$315 | \$256 | \$(257) | \$261 | \$ 44 | \$25 | \$54 |
|---|-------|---------|-------|-------|---------|-------|-------|------|------|

|  | Postretirement benefits |          |       |
|--|-------------------------|----------|-------|
|  | 2014                    | 2013     | 2012  |
| Service cost   | \$ 11                   | \$ 13    | \$ 13 |
| Interest cost  | 38                      | 39       | 45    |
| Amortization of net loss   |                         | 15       | 15    |
| Amortization of prior service credit   | (6)                     | (6)      | (6)   |
| Total net periodic benefit expense   | \$ 43                   | \$ 61    | \$ 67 |
| Other changes in plan assets and benefit obligations recognized in other comprehensive income: |                         |          |       |
| Current year actuarial loss (gain)   | \$ 49                   | \$ (178) | \$ 20 |
| Amortization of actuarial loss   |                         | (15)     | (16)  |
| Current year prior service credit  | (5)                     | (5)      |       |
| Amortization of prior service credit   | 6                       | 6        | 6     |
| Total recognized in other comprehensive (income) loss  | \$ 50                   | \$ (192) | \$ 10 |
| Total recognized in net periodic benefit cost and other comprehensive (income) loss            | \$ 93                   | \$ (131) | \$ 77 |

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## 13. Employee Retirement Plans (continued)

The Company expects to recognize \$6 million of net prior service cost as a component of net periodic pension cost in 2015 for its defined benefit pension plans. The Company expects to recognize \$5 million of net loss and \$6 million of net prior service credit as components of net periodic postretirement benefit cost in 2015.

Corning uses a hypothetical yield curve and associated spot rate curve to discount the plan's projected benefit payments. Once the present value of projected benefit payments is calculated, the suggested discount rate is equal to the level rate that results in the same present value. The yield curve is based on actual high-quality corporate bonds across the full maturity spectrum, which also includes private placements as well as Eurobonds that are denominated in U.S. currency. The curve is developed from yields on approximately 350-375 bonds from four grading sources, Moody's, S&P, Fitch and the Dominion Bond Rating Service. A bond will be included if at least half of the grades from these sources are Aa, non-callable bonds. The very highest 10% yields and the lowest 40% yields are excluded from the curve to eliminate outliers in the bond population.

Mortality is one of the key assumptions used in valuing liabilities of retirement plans. It is used to assign a probability of payment for future plan benefits that are contingent upon participants' survival. To make this assumption, benefit plan sponsors typically use a base mortality table and an improvement scale that adjusts the rates of mortality for future anticipated changes to historical death rates. For the past seven years, Corning has utilized the RP 2000 mortality table with improvement Scale AA in performing valuations of its U.S. pension and OPEB liabilities. On October 27, 2014, the Society of Actuaries ("SOA") published new mortality tables for benefit plan sponsors to consider when measuring their benefit plan costs and obligations. These tables reflect the fact that life expectancies have improved since the last comprehensive study of mortality data was released in 2000. In the fourth quarter of 2014, Corning undertook a review of its mortality assumption for its U.S. benefit plans to determine if an update to our current mortality table was appropriate. Based on the findings of this analysis, Corning believes that the RP-2014 table adjusted for Corning's experience with future improvements projected using scale BB-2D represents the best estimate of future mortality improvement for Corning's U.S. benefit plans. The impact of the mortality table change was an increase of \$88 million to our pension obligation.

Measurement of postretirement benefit expense is based on assumptions used to value the postretirement benefit obligation at the beginning of the year.

The weighted-average assumptions used to determine benefit obligations at December 31 follow:

|                                     | Pension benefits |                  |       |       |                       |       | Postretirement benefits |       |       |
|-------------------------------------|------------------|------------------|-------|-------|-----------------------|-------|-------------------------|-------|-------|
|                                     | 2014             | Domestic<br>2013 | 2012  | 2014  | International<br>2013 | 2012  | 2014                    | 2013  | 2012  |
| Discount rate                       | 4.00%            | 4.75%            | 3.75% | 3.21% | 4.08%                 | 4.48% | 4.00%                   | 4.75% | 4.00% |
| Rate of<br>compensation<br>increase | 3.50%            | 4.00%            | 4.00% | 3.88% | 3.85%                 | 3.45% |                         |       |       |

The weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 follow:

|                                   | Pension benefits |                  |       |       |                       |       | Postretirement benefits |       |       |
|-----------------------------------|------------------|------------------|-------|-------|-----------------------|-------|-------------------------|-------|-------|
|                                   | 2014             | Domestic<br>2013 | 2012  | 2014  | International<br>2013 | 2012  | 2014                    | 2013  | 2012  |
| Discount rate                     | 4.75%            | 3.75%            | 4.75% | 4.08% | 4.48%                 | 4.40% | 4.75%                   | 4.00% | 4.75% |
| Expected return<br>on plan assets | 6.25%            | 6.00%            | 6.00% | 4.12% | 3.73%                 | 6.01% |                         |       |       |
|                                   | 4.00%            | 4.00%            | 4.25% | 3.85% | 3.45%                 | 3.44% |                         |       |       |

**Rate of  
compensation  
increase**

The assumed rate of return was determined based on the current interest rate environment and historical market premiums relative to fixed income rates of equities and other asset classes. Reasonableness of the results is tested using models provided by the plan actuaries.

| Assumed health care trend rates at December 31      | 2014  | 2013 |
|---|-------|------|
| Health care cost trend rate assumed for next year   | 6.67% | 7%   |
| Rate that the cost trend rate gradually declines to | 5%    | 5%   |
| Year that the rate reaches the ultimate trend rate  | 2020  | 2020 |

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## 13. Employee Retirement Plans (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in millions):

|   | One-percentage-point<br>increase | One-percentage-point<br>decrease |
|---|----------------------------------|----------------------------------|
| Effect on annual total of service and interest cost | \$ 4                             | \$ (3)                           |
| Effect on postretirement benefit obligation         | \$49                             | \$(41)                           |

## Plan Assets

Corning's expected long-term rates of return on plan assets reflect the average rates of earnings expected on the funds invested to provide for the benefits included in our domestic and international projected benefit obligations. We based these rates on asset/liability forecast modeling, which is based on our current asset allocation, the return and standard deviation for each asset class, current market conditions and transitions from current conditions to long-term returns.

The Company's overall investment strategy is to obtain sufficient return to offset or exceed inflation and provide adequate liquidity to meet the benefit obligations of the pension plan. Investments are made in public securities to ensure adequate liquidity to support benefit payments. Domestic and international stocks and bonds provide diversification to the portfolio. The target allocation range for global equity investment is 20%-25% which includes large, mid and small cap companies and investments in both developed and emerging markets. The target allocation for bond investments is 60%, which predominately includes corporate bonds. Long duration fixed income assets are utilized to mitigate the sensitivity of funding ratios to changes in interest rates. The target allocation range for non-public investments in private equity and real estate is 5%-15%, and is used to enhance returns and offer additional asset diversification. The target allocation range for commodities is 0%-5%, which provides some inflation protection to the portfolio.

The following tables provide fair value measurement information for the Company's major categories of our domestic defined benefit plan assets:

| (in millions)             | December 31,<br>2014 | Fair value measurements at reporting date using                         |  |  |
|---------------------------|----------------------|---|--|--|
|                           |                      | Quoted prices in<br>active markets<br>for identical<br>assets (Level 1) | Significant<br>other<br>observable<br>inputs (Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| <b>Equity securities:</b> |                      |   |  |  |
| U.S. companies            | \$ 310               | \$ 49   | \$ 261   |  |
| International companies   | 327                  | 78  | 249  |  |
| <b>Fixed income:</b>      |                      |   |  |  |
| U.S. corporate bonds      | 1,720                | 166   | 1,554  |  |
| Private equity (1)        | 192                  |   |  | \$ 192   |
| Real estate (2)           | 84                   |   |  | 84   |
| Cash equivalents          | 80                   | 80  |  |  |
| Commodities (3)           | 101                  |   | 101  |  |
| <b>Total</b>              | <b>\$ 2,814</b>      | <b>\$ 373</b>   | <b>\$ 2,165</b>  | <b>\$ 276</b>                                      |

(1) This category includes venture capital, leverage buyouts and distressed debt limited partnerships invested primarily in U.S. companies. The inputs are valued by discounted cash flow analysis and comparable sale analysis.

- (2) This category includes industrial, office, apartments, hotels, infrastructure, and retail investments which are limited partnerships predominately in the U.S. The inputs are valued by discounted cash flow analysis; comparable sale analysis and periodic external appraisals.
- (3) This category includes investments in energy, industrial metals, precious metals, agricultural and livestock primarily through futures, options, swaps, and exchange traded funds.

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## 13. Employee Retirement Plans (continued)

| (in millions)             | December 31,<br>2013 | Fair value measurements at reporting date using                         |  |  |
|---------------------------|----------------------|---|--|--|
|                           |                      | Quoted prices in<br>active markets<br>for identical<br>assets (Level 1) | Significant<br>other<br>observable<br>inputs (Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| <b>Equity securities:</b> |                      |   |  |  |
| U.S. companies            | \$ 325               | \$ 216  | \$ 109   |  |
| International companies   | 294                  | 118   | 176  |  |
| <b>Fixed income:</b>      |                      |   |  |  |
| U.S. corporate bonds      | 1,538                | 142   | 1,396  |  |
| Private equity (1)        | 207                  |   |  | \$ 207   |
| Real estate (2)           | 93                   |   |  | 93   |
| Cash equivalents          | 39                   | 39  |  |  |
| Commodities (3)           | 100                  |   | 100  |  |
| Total                     | \$ 2,596             | \$ 515  | \$ 1,781   | \$ 300   |

(1) This category includes venture capital, leverage buyouts and distressed debt limited partnerships invested primarily in U.S. companies. The inputs are valued by discounted cash flow analysis and comparable sale analysis.

(2) This category includes industrial, office, apartments, hotels, infrastructure, and retail investments which are limited partnerships predominately in the U.S. The inputs are valued by discounted cash flow analysis; comparable sale analysis and periodic external appraisals.

(3) This category includes investments in energy, industrial metals, precious metals, agricultural and livestock primarily through futures, options, swaps, and exchange traded funds.

The following tables provide fair value measurement information for the Company's major categories of our international defined benefit plan assets:

| (in millions)              | December 31,<br>2014 | Fair value measurements at reporting date using                         |  |  |
|----------------------------|----------------------|---|--|--|
|                            |                      | Quoted prices in<br>active markets<br>for identical<br>assets (Level 1) | Significant<br>other<br>observable<br>inputs (Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| <b>Equity securities:</b>  |                      |   |  |  |
| U.S. companies             | \$ 6                 |   | \$ 6   |  |
| International companies    | 22                   |   | 22   |  |
| <b>Fixed income:</b>       |                      |   |  |  |
| International fixed income | 361                  | \$ 293  | 68   |  |
| Insurance contracts        | 5                    |   |  | \$ 5   |
| Mortgages                  | 7                    |   |  | 7  |
| Cash equivalents           | 48                   | 48  |  |  |
| Total                      | \$ 449               | \$ 341  | \$ 96  | \$ 12  |

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## 13. Employee Retirement Plans (continued)

| (in millions)              | December 31,<br>2013 | Fair value measurements at reporting date using                         |  |  |
|----------------------------|----------------------|---|--|--|
|                            |                      | Quoted prices in<br>active markets<br>for identical<br>assets (Level 1) | Significant<br>other<br>observable<br>inputs (Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| <b>Equity securities:</b>  |                      |   |  |  |
| U.S. companies             | \$ 6                 |   | \$ 6   |  |
| International companies    | 22                   |   | 22   |  |
| <b>Fixed income:</b>       |                      |   |  |  |
| International fixed income | 245                  | \$ 185  | 60   |  |
| Insurance contracts        | 6                    |   |  | \$ 6   |
| <b>Mortgages</b>           |                      |   |  |  |
| Cash equivalents           | 21                   | 21  |  |  |
| <b>Total</b>               | <b>\$ 300</b>        | <b>\$ 206</b>   | <b>\$ 88</b>   | <b>\$ 6</b>  |

The tables below set forth a summary of changes in the fair value of the defined benefit plans Level 3 assets for the years ended December 31, 2014 and 2013:

| (in millions)   | Level 3 assets – Domestic<br>Year ended December 2014 |                | Level 3 assets – International<br>Year ended December 2014 |                        |
|---|---|----------------|--|------------------------|
|   | Private<br>equity                                     | Real<br>estate | Mortgages  | Insurance<br>contracts |
| Beginning balance at December 31, 2013  | \$ 207  | \$ 93          | \$ 0   | \$ 6                   |
| Actual return on plan assets relating to assets<br>still held at the reporting date | 31  | 8              |  | 1                      |
| Transfers in and/or out of level 3  | (46)  | (17)           | 7  | (2)                    |
| Ending balance at December 31, 2014   | \$ 192  | \$ 84          | \$ 7   | \$ 5                   |

| (in millions)   | Level 3 assets – Domestic<br>Year ended December 2013 |                | Level 3 assets – International<br>Year ended December 2013 |                        |
|---|---|----------------|--|------------------------|
|   | Private<br>equity                                     | Real<br>estate | Mortgages  | Insurance<br>contracts |
| Beginning balance at December 31, 2012  | \$ 221  | \$ 103         | \$ 0   | \$ 6                   |
| Actual return on plan assets relating to assets<br>still held at the reporting date | 25  | 9              |  |                        |
| Transfers in and/or out of level 3  | (39)  | (19)           |  |                        |
| Ending balance at December 31, 2013   | \$ 207  | \$ 93          | \$ 0   | \$ 6                   |

**Credit Risk**

61% of domestic plan assets are invested in long duration bonds. The average rating for these bonds is A. These bonds are subject to credit risk, such that a decline in credit ratings for the underlying companies, countries or assets (for asset-backed securities) would result in a decline in the value of the bonds. These bonds are also subject to



default risk.

**Currency Risk**

12% of domestic assets are valued in non-U.S. dollar denominated investments that are subject to currency fluctuations. The value of these securities will decline if the U.S. dollar increases in value relative to the value of the currencies in which these investments are denominated.

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## 13. Employee Retirement Plans (continued)

## Liquidity Risk

10% of the domestic securities are invested in Level 3 securities. These are long-term investments in private equity and private real estate investments that may not mature or be sellable in the near-term without significant loss.

At December 31, 2014 and 2013, the amount of Corning common stock included in equity securities was not significant.

## Cash Flow Data

In 2015, we anticipate making voluntary cash contributions of approximately \$65 million to our domestic defined benefit plan and approximately \$28 million to our international defined benefit plans.

The following reflects the gross benefit payments that are expected to be paid for our domestic and international defined benefit pension plans, the postretirement medical and life plans and the gross amount of annual Medicare Part D federal subsidy expected to be received (in millions):

|           | Expected benefit payments       |                                      |                            | Expected federal subsidy payments<br>postretirement benefits |
|-----------|---------------------------------|--------------------------------------|----------------------------|--|
|           | Domestic<br>pension<br>benefits | International<br>pension<br>benefits | Postretirement<br>benefits |  |
| 2015      | \$ 202                          | \$ 27                                | \$ 48                      | \$ 2   |
| 2016      | \$ 185                          | \$ 22                                | \$ 49                      | \$ 2   |
| 2017      | \$ 189                          | \$ 23                                | \$ 49                      | \$ 3   |
| 2018      | \$ 194                          | \$ 26                                | \$ 48                      | \$ 3   |
| 2019      | \$ 199                          | \$ 26                                | \$ 48                      | \$ 3   |
| 2020-2024 | \$1,091                         | \$165                                | \$239                      | \$15   |

## Other Benefit Plans

We offer defined contribution plans covering employees meeting certain eligibility requirements. Total consolidated defined contribution plan expense was \$62 million, \$63 million and \$50 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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## 14. Commitments, Contingencies, and Guarantees

The amounts of our obligations follow (in millions):

|  | Amount of commitment and contingency expiration per period |                     |                 |                 |                           |
|--|--|---------------------|-----------------|-----------------|---------------------------|
|  | Total  | Less than<br>1 year | 1 to 3<br>years | 3 to 5<br>years | 5 years and<br>thereafter |
| Performance bonds and guarantees                             | \$ 75  | \$ 21               | \$ 3            | \$ 1            | \$ 50                     |
| Stand-by letters of credit (1)                               | 61   | 57                  |                 |                 | 4                         |
| Loan guarantees  | 14   |                     |                 |                 | 14                        |
| Subtotal of commitment expirations per period                | \$ 150   | \$ 78               | \$ 3            | \$ 1            | \$ 68                     |
| Purchase obligations (6)                                     | \$ 287   | \$ 152              | \$ 105          | \$ 15           | \$ 15                     |
| Capital expenditure obligations (2)                          | 358  | 358                 |                 |                 |                           |
| Total debt (3)   | 2,899  | 29                  | 314             | 250             | 2,306                     |
| Interest on long-term debt (4)                               | 2,451  | 151                 | 293             | 274             | 1,733                     |
| Capital leases and financing obligations (3)                 | 360  | 7                   | 14              | 7               | 332                       |
| Imputed interest on capital leases and financing obligations | 258  | 19                  | 38              | 38              | 163                       |
| Minimum rental commitments                                   | 238  | 48                  | 75              | 44              | 71                        |
| Uncertain tax positions (5)                                  | 2  | 1                   | 1               |                 |                           |
| Subtotal of contractual obligation payments due by period    | 6,853  | 765                 | 840             | 628             | 4,620                     |
| Total commitments and contingencies                          | \$ 7,003   | \$ 843              | \$ 843          | \$ 629          | \$ 4,688                  |

(1) At December 31, 2014, \$41 million of the \$61 million was included in other accrued liabilities on our consolidated balance sheets.

(2) Capital expenditure obligations primarily reflect amounts associated with our capital expansion activities.

(3) Total debt above is stated at maturity value, and excludes interest rate swap gains and bond discounts.

(4) The estimate of interest payments assumes interest is paid through the date of maturity or expiration of the related debt, based upon stated rates in the respective debt instruments.

(5) At December 31, 2014, \$8 million was included on our balance sheet related to uncertain tax positions. Of this amount, we are unable to estimate when \$6 million of that amount will become payable.

(6) Purchase obligations are enforceable and legally binding obligations which primarily consist of raw material and energy-related take-or-pay contracts.

We are required, at the time a guarantee is issued, to recognize a liability for the fair value or market value of the obligation it assumes. In the normal course of our business, we do not routinely provide significant third-party guarantees. Generally, third-party guarantees provided by Corning are limited to certain financial guarantees, including stand-by letters of credit and performance bonds, and the incurrence of contingent liabilities in the form of purchase price adjustments related to attainment of milestones. These guarantees have various terms, and none of these guarantees are individually significant.

We believe a significant majority of these guarantees and contingent liabilities will expire without being funded.

Minimum rental commitments under leases outstanding at December 31, 2014 follow (in millions):

| 2015 | 2016 | 2017 | 2018 | 2019 | 2020 and thereafter |
|------|------|------|------|------|---------------------|
| \$48 | \$45 | \$30 | \$25 | \$19 | \$71                |

Total rental expense was \$92 million for 2014, \$85 million for 2013 and \$80 million for 2012.

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14. Commitments, Contingencies, and Guarantees (continued)

Product warranty liability accruals at December 31, 2014 and December 31, 2013 are insignificant.

Corning is a defendant in various lawsuits, including environmental, product-related suits, the Dow Corning and PCC matters discussed in Note 7 (Investments) to the Consolidated Financial Statements, and is subject to various claims that arise in the normal course of business. In the opinion of management, the likelihood that the ultimate disposition of these matters will have a material adverse effect on Corning's consolidated financial position, liquidity, or results of operations, is remote. Other than certain asbestos related claims, there are no other material loss contingencies related to litigation.

Corning has been named by the Environmental Protection Agency (the Agency) under the Superfund Act, or by state governments under similar state laws, as a potentially responsible party for 15 active hazardous waste sites. Under the Superfund Act, all parties who may have contributed any waste to a hazardous waste site, identified by the Agency, are jointly and severally liable for the cost of cleanup unless the Agency agrees otherwise. It is Corning's policy to accrue for its estimated liability related to Superfund sites and other environmental liabilities related to property owned by Corning based on expert analysis and continual monitoring by both internal and external consultants. At December 31, 2014 and December 31, 2013, Corning had accrued approximately \$42.5 million (undiscounted) and \$15 million (undiscounted), respectively, for the estimated liability for environmental cleanup and related litigation. Based upon the information developed to date, management believes that the accrued reserve is a reasonable estimate of the Company's liability and that the risk of an additional loss in an amount materially higher than that accrued is remote.

The ability of certain subsidiaries and affiliated companies to transfer funds is limited by provisions of foreign government regulations, affiliate agreements and certain loan agreements. At December 31, 2014, the amount of equity subject to such restrictions for consolidated subsidiaries and affiliated companies was not significant. While this amount is legally restricted, it does not result in operational difficulties since we have generally permitted subsidiaries to retain a majority of equity to support their growth programs.

15. Hedging Activities

Corning is exposed to interest rate and foreign currency risks due to the movement of these rates.

The areas in which exchange rate fluctuations affect us include:

- Financial instruments and transactions denominated in foreign currencies, which impact earnings; and
- The translation of net assets in foreign subsidiaries for which the functional currency is not the U.S. dollar, which impacts our net equity.

Our most significant foreign currency exposures relate to the Japanese yen, South Korean won, New Taiwan dollar, Chinese renminbi, and the Euro. We seek to mitigate the impact of exchange rate movements in our income statement by using over-the-counter (OTC) derivative instruments including foreign exchange forward and option contracts typically with durations of 36 months or less. In general, these hedges expire coincident with the timing of the underlying foreign currency commitments and transactions.

We are exposed to potential losses in the event of non-performance by our counterparties to these derivative contracts. However, we minimize this risk by maintaining a diverse group of highly-rated major international financial institutions with which we have other financial relationships as our counterparties. We do not expect to record any losses as a result of such counterparty default. Neither we nor our counterparties are required to post

collateral for these financial instruments. In April 2014, the Finance Committee of the Board of Directors approved the Company's qualification for and election of the end-user exception to the mandatory swap clearing requirement of the Dodd-Frank Act.

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15. Hedging Activities (continued)

Cash Flow Hedges

Our cash flow hedging activities utilize OTC foreign exchange forward contracts to reduce the risk that movements in exchange rates will adversely affect the net cash flows resulting from the sale of products to foreign customers and purchases from foreign suppliers. Our cash flow hedging activity also uses interest rate swaps to reduce the risk of increases in benchmark interest rates on the probable issuance of debt and associated interest payments. In the fourth quarter of 2014, the Company entered into interest rate swap agreements to hedge against the variability in cash flows due to changes in the benchmark interest rate related to an anticipated issuance. The instruments were designated as cash flow hedges.

Corning uses a regression analysis to monitor the effectiveness of its cash flow hedges both prospectively and retrospectively. Through December 31, 2014, the hedge ineffectiveness related to these instruments is not material. Corning defers net gains and losses related to effective portion of cash flow hedges into accumulated other comprehensive (loss) income on the consolidated balance sheet until such time as the hedged item impacts earnings. At December 31, 2014, the amount expected to be reclassified into earnings within the next 12 months is a pre-tax net gain of \$15.2 million.

Fair Value Hedges

In October of 2012, we entered into two interest rate swaps that are designated as fair value hedges and economically exchange a notional amount of \$550 million of previously issued fixed rate long-term debt to floating rate debt. Under the terms of the swap agreements, we pay the counterparty a floating rate that is indexed to the one-month LIBOR rate.

Corning utilizes the long haul method for effectiveness analysis, both retrospectively and prospectively. The analysis excludes the impact of credit risk from the assessment of hedge effectiveness. The amount recorded in current period earnings in the other income, net component, relative to ineffectiveness, is nominal for the year ended December 31, 2013. There were no outstanding fair value hedges in 2012.

Net gains and losses from fair value hedges and the effects of the corresponding hedged item are recorded on the same line item of the consolidated statement of operations.

Undesignated Hedges

Corning also uses OTC foreign exchange forward and option contracts that are not designated as hedging instruments for accounting purposes. The undesignated hedges limit exposures to foreign functional currency fluctuations related to certain subsidiaries' monetary assets, monetary liabilities and net earnings in foreign currencies.

A significant portion of the Company's non-U.S. revenues are denominated in Japanese yen. When these revenues are translated back to U.S. dollars, the Company is exposed to foreign exchange rate movements in the Japanese yen. To protect translated earnings against movements in the Japanese yen, the Company has entered into a series of purchased collars and average rate forwards.

The Company also uses these types of contracts to reduce the potential for unfavorable changes in foreign exchange rates to decrease the U.S. dollar value of translated earnings. With a purchased collar structure, the Company writes a local currency call option and purchases a local currency put option or vice versa. The purchased collars offset the impact of translated earnings above the put price and below the call strike price and that offset is reported in other income, net. The Company entered into a series of purchased collars, settling quarterly, to hedge the effect of translation impact for each respective quarter, and span up to the fourth quarter of 2014. Due to the nature of the instruments, only either the put option or the call option can be exercised at maturity. As of December 31, 2014, the

U.S. dollar net notional value of the Korean won purchased collars is \$1.2 billion. The Company entered into a series of average rate forwards with no associated premium, which will partially hedge the impact of Japanese yen translation on the Company's projected 2015 through 2017 net income. These forwards have a notional value of \$9.8 billion and will settle net without obligation to deliver Japanese yen.

The Company benefits from the increase in the U.S. dollar equivalent value of its foreign currency earnings in translation. The purchased collar, within other income, would cap the benefit at the strike price of the written call or offset the decline from translation above the strike price of the purchased put.

The fair value of these derivative contracts are recorded as either assets (gain position) or liabilities (loss position) on the Consolidated Balance Sheet. Changes in the fair value of the derivative contracts are recorded currently in earnings in the other income line of the Consolidated Statement of Operations.

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## 15. Hedging Activities (continued)

The following table summarizes the notional amounts and respective fair values of Corning's derivative financial instruments on a gross basis for December 31, 2014 and December 31, 2013 (in millions):

|  | Notional amount |                 | Asset derivatives      |                 | Liability derivatives |                           |                 |                 |
|--|-----------------|-----------------|------------------------|-----------------|-----------------------|---------------------------|-----------------|-----------------|
|  | 2014            | 2013            | Balance sheet location | Fair value 2014 | Fair value 2013       | Balance sheet location    | Fair value 2014 | Fair value 2013 |
| <b>Derivatives designated as hedging instruments</b>     |                 |                 |                        |                 |                       |                           |                 |                 |
| Foreign exchange contracts                               | \$ 487          | \$ 433          | Other current assets   | \$ 22           | \$ 8                  | Other accrued liabilities | \$ (6)          | \$ (3)          |
| Interest rate contracts                                  | 1,300           | 550             | Other assets           | 1               |                       | Other liabilities         | (15)            | (28)            |
| <b>Derivatives not designated as hedging instruments</b> |                 |                 |                        |                 |                       |                           |                 |                 |
| Foreign exchange contracts                               | 1,285           | 804             | Other current assets   | 17              | 20                    | Other accrued liabilities | (5)             | (3)             |
| Translated earnings contracts                            | 12,126          | 6,826           | Other current assets   | 649             | 344                   | Other accrued liabilities | (33)            | (3)             |
|  |                 |                 | Other assets           | 846             | 90                    |                           |                 |                 |
| <b>Total derivatives</b>                                 | <b>\$15,198</b> | <b>\$ 8,613</b> |                        | <b>\$1,535</b>  | <b>\$ 462</b>         |                           | <b>\$ (59)</b>  | <b>\$ (37)</b>  |

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## 15. Hedging Activities (continued)

The following tables summarize the effect on the consolidated financial statements relating to Corning's derivative financial instruments (in millions):

| Effect of derivative instruments on the consolidated financial statements for the years ended December 31 |  |       |        |   |   |        |       |
|---|--|-------|--------|---|---|--------|-------|
| Derivative relationships  | Gain/(loss) recognized in other comprehensive income (OCI) |       |        | Location of gain/(loss) reclassified from accumulated OCI into income effective/ineffective | Gain/(loss) reclassified from accumulated OCI into income ineffective/effective (1) |        |       |
|   | 2014   | 2013  | 2012   |   | 2014  | 2013   | 2012  |
| Cash flow hedges  |  |       |        |   |   |        |       |
| -   |  |       |        | Net sales   | \$ 3  |        | \$ 1  |
| Interest rate hedge   | \$ (3)   | \$ 33 | \$ 15  | Cost of sales   | 7   | \$ 38  | 16    |
| Foreign exchange contracts  | 20   | 56    | 85     | Other income, net   |   | 91     | 11    |
| Total cash flow hedges  | \$ 17  | \$ 89 | \$ 100 |   | \$ 10   | \$ 129 | \$ 28 |

| Undesignated derivatives                   | Location          | Gain (loss) recognized in income |        |        |
|--|-------------------|----------------------------------|--------|--------|
|  |                   | 2014                             | 2013   | 2012   |
| Foreign exchange contracts – balance sheet | Other income, net | \$ 29                            | \$ 100 | \$ 82  |
| Foreign exchange contracts – loans         | Other income, net | 13                               | 87     | 141    |
| Translated earnings contracts              | Other income, net | 1,369                            | 435    |        |
| Total undesignated                         |                   | \$ 1,411                         | \$ 622 | \$ 223 |

(1) There was no amount of ineffectiveness for 2014 and the amount of hedge ineffectiveness for the year ended December 31, 2013 was \$24 million related to interest rate swaps settled in the fourth quarter. The amount of ineffectiveness for 2012 was insignificant.

## 16. Fair Value Measurements

Fair value standards under U.S. GAAP define fair value, establish a framework for measuring fair value in applying generally accepted accounting principles, and require disclosures about fair value measurements. The standards also

identify two kinds of inputs that are used to determine the fair value of assets and liabilities: observable and unobservable. Observable inputs are based on market data or independent sources while unobservable inputs are based on the Company's own market assumptions. Once inputs have been characterized, the inputs are prioritized into one of three broad levels (provided in the table below) used to measure fair value. Fair value standards apply whenever an entity is measuring fair value under other accounting pronouncements that require or permit fair value measurement and require the use of observable market data when available.

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## 16. Fair Value Measurements (continued)

The following tables provide fair value measurement information for the Company's major categories of financial assets and liabilities measured on a recurring basis:

| (in millions)                   | December 31,<br>2014 | Fair value measurements at reporting date using                         |  |  |
|---------------------------------|----------------------|---|--|--|
|                                 |                      | Quoted prices in<br>active markets for<br>identical assets<br>(Level 1) | Significant other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| <b>Current assets:</b>          |                      |   |  |  |
| Short-term investments          | \$ 759               | \$759   |  |  |
| Other current assets (1)        | \$ 687               |   | \$687  |  |
| <b>Non-current assets:</b>      |                      |   |  |  |
| Other assets (2)                | \$1,330              |   | \$885  | \$445  |
| <b>Current liabilities:</b>     |                      |   |  |  |
| Other accrued liabilities (1)   | \$ 44                |   | \$ 44  |  |
| <b>Non-current liabilities:</b> |                      |   |  |  |
| Other liabilities (1)           | \$ 15                |   | \$ 15  |  |

(1) Derivative assets and liabilities include foreign exchange contracts which are measured using observable quoted prices for similar assets and liabilities.

(2) Other assets include asset-backed securities which are measured using observable quoted prices for similar assets and a contingent consideration asset which was measured by applying an option pricing model using projected future Corning Precision Materials' revenue.

| (in millions)                   | December 31,<br>2013 | Fair value measurements at reporting date using                         |  |  |
|---------------------------------|----------------------|---|--|--|
|                                 |                      | Quoted prices in<br>active markets for<br>identical assets<br>(Level 1) | Significant other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
| <b>Current assets:</b>          |                      |   |  |  |
| Short-term investments          | \$531                | \$531   |  |  |
| Other current assets (1)        | \$372                |   | \$372  |  |
| <b>Non-current assets:</b>      |                      |   |  |  |
| Other assets (2)                | \$128                |   | \$128  | -  |
| <b>Current liabilities:</b>     |                      |   |  |  |
| Other accrued liabilities (1)   | \$ 9                 |   | \$ 9   |  |
| <b>Non-current liabilities:</b> |                      |   |  |  |
| Other liabilities (1)           | \$ 28                |   | \$ 28  |  |

(1) Derivative assets and liabilities include foreign exchange contracts which are measured using observable quoted prices for similar assets and liabilities.

(2) Other assets include asset-backed securities which are measured using observable quoted prices for similar assets.

As a result of the Acquisition of Samsung Corning Precision Materials in January 2014, the Company has contingent consideration that was measured using unobservable (Level 3) inputs. This contingent consideration arrangement potentially requires additional consideration to be paid between the parties in 2018: one based on projections of future revenues generated by the business of Corning Precision Materials for the period between the acquisition date and December 31, 2017, which is subject to a cap of \$665 million; and another based on the volumes of certain sales during the same period, which is subject to a separate cap of \$100 million. The fair value of the potential receipt of the contingent consideration in 2018 in the amount of \$196 million recognized on the acquisition date was estimated by applying an option pricing model using the Company's projection of future revenues generated by Corning Precision Materials. Changes in the fair value of the contingent consideration in future periods are valued using an option pricing model and are recorded in Corning's results in the period of the change. As of December 31, 2014, the fair value of the potential receipt of the contingent consideration in 2018 is \$445 million. Corning recorded a pre-tax adjustment in the amount of \$249 million to reflect the increase in the fair value which is mainly due to the movement in foreign exchange rate.

There were no significant financial assets and liabilities measured on a nonrecurring basis during the years ended December 31, 2014 and 2013.

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## 17. Shareholders' Equity

### Fixed Rate Cumulative Convertible Preferred Stock, Series A

On January 15, 2014, Corning designated a new series of its preferred stock as Fixed Rate Cumulative Convertible Preferred Stock, Series A, par value \$100 per share, and issued 1,900 shares of Preferred Stock at an issue price of \$1 million per share, for an aggregate issue price of \$1.9 billion, to Samsung Display in connection with the Acquisition of its equity interests in Samsung Corning Precision Materials. Corning also issued to Samsung Display an additional amount of Preferred Stock at closing, for an aggregate issue price of \$400 million in cash.

Dividends on the Preferred Stock are cumulative and accrue at the annual rate of 4.25% on the per share issue price of \$1 million. The dividends are payable quarterly as and when declared by the Company's Board of Directors. The Preferred Stock ranks senior to our common stock with respect to payment of dividends and rights upon liquidation. The Preferred Stock is not redeemable except in the case of a certain deemed liquidation event, the occurrence of which is under the control of the Company. The Preferred Stock is convertible at the option of the holder and the Company upon certain events, at a conversion rate of 50,000 shares of Corning's common stock per one share of Preferred Stock, subject to certain anti-dilution provisions. As of December 31, 2014, the Preferred Stock has not been converted, and none of the anti-dilution provisions have been triggered. Following the seventh anniversary of the closing of the Acquisition, the Preferred Stock will be convertible, in whole or in part, at the option of the holder. The Company has the right, at its option, to cause some or all of the shares of Preferred Stock to be converted into Common Stock, if, for 25 trading days (whether or not consecutive) within any period of 40 consecutive trading days, the closing price of Common Stock exceeds \$35 per share. If the aforementioned right becomes exercisable before the seventh anniversary of the closing, the Company must first obtain the written approval of the holders of a majority of the Preferred Stock before exercising its conversion right. The Preferred Stock does not have any voting rights except as may be required by law.

### Share Repurchases

During 2012, we repurchased 56 million shares of common stock on the open market for \$719 million as part of the share repurchase program announced on October 5, 2011.

On October 31, 2013, as part of the share repurchase program announced on April 24, 2013 (the "2013 Repurchase Program"), Corning entered into an accelerated share repurchase ("ASR") agreement with JP Morgan Chase Bank, National Association, London Branch ("JPMC"). Under the ASR agreement with JPMC, Corning agreed to purchase \$1 billion of its common stock, in total, with an initial delivery by JPMC of 47.1 million shares based on the current market price, and payment of \$1 billion made by Corning to JPMC. The payment to JPMC was recorded as a reduction to shareholders' equity, consisting of an \$800 million increase in treasury stock, which reflects the value of the initial 47.1 million shares received upon execution, and a \$200 million decrease in other-paid-in capital, which reflects the value of the stock held back by JPMC pending final settlement. On January 28, 2014, the ASR agreement with JPMC was completed. Corning received an additional 10.5 million shares on January 31, 2014 to settle the ASR agreement. In total, Corning purchased 57.6 million shares based on the average daily volume weighted-average price of Corning's common stock during the term of the ASR agreement with JPMC, less a discount.

In addition to the shares repurchased through the ASR agreement, we repurchased 61.3 million shares of common stock on the open market for approximately \$1 billion, as part of the 2013 Repurchase Program. This program was executed between the second quarter of 2013 and the first quarter of 2014, with a total of 118.9 million shares repurchased for approximately \$2 billion.

On March 4, 2014, as part of the \$2 billion share repurchase program announced on October 22, 2013 and made effective concurrent with the closing of Corning's Acquisition of Samsung Corning Precision Materials on January 15, 2014 (the "2014 Repurchase Program"), Corning entered into an ASR agreement with Citibank N.A. ("Citi"). Under the ASR agreement with Citi, Corning agreed to purchase \$1.25 billion of its common stock, with an initial delivery by Citi of 52.5 million shares based on the current market price, and payment of \$1.25 billion made by Corning to Citi. On May 28, 2014, the ASR agreement with Citi was completed, and Corning received an additional 8.7 million shares to settle the ASR agreement. In total, Corning repurchased 61.2 million shares based on the average daily volume weighted-average price of Corning's common stock during the term of the ASR agreement with Citi, less a discount.

In addition to the shares repurchased through the ASR agreement, in the year ended December 31, 2014, we repurchased 36.9 million shares of common stock on the open market for approximately \$750 million, as part of the 2014 Repurchase Program. This program was completed in the fourth quarter of 2014, with a total of 98.2 million shares repurchased for approximately \$2 billion.

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## 17. Shareholders' Equity (continued)

The following table presents changes in capital stock for the period from January 1, 2012 to December 31, 2014 (in millions):

|   | Common stock |           | Treasury stock |            |
|---|--------------|-----------|----------------|------------|
|   | Shares       | Par value | Shares         | Cost       |
| Balance at December 31, 2011                            | 1,636        | \$ 818    | (121)          | \$ (2,024) |
| Shares issued to benefit plans and for option exercises | 13           | 7         |                | (1)        |
| Shares purchased for treasury                           |              |           | (56)           | (719)      |
| Other, net  |              |           | (2)            | (29)       |
| Balance at December 31, 2012                            | 1,649        | \$ 825    | (179)          | \$ (2,773) |
| Shares issued to benefit plans and for option exercises | 12           | 6         |                | (1)        |
| Shares purchased for treasury                           |              |           | (82)           | (1,316)    |
| Other, net  |              |           | (1)            | (9)        |
| Balance at December 31, 2013                            | 1,661        | \$ 831    | (262)          | \$ (4,099) |
| Shares issued to benefit plans and for option exercises | 11           | 5         |                | (2)        |
| Shares purchased for treasury                           |              |           | (135)          | (2,612)    |
| Other, net  |              |           | (1)            | (14)       |
| Balance at December 31, 2014 (1)                        | 1,672        | \$ 836    | (398)          | \$ (6,727) |

(1) On January 15, 2014, in conjunction with the Acquisition of Corning Precision Materials, Corning issued 2,300 Fixed Rate Cumulative Convertible Preferred Stock, Series A ("Preferred Stock"), par value \$100 per share, at an issue price of \$1 million per share, for an aggregate issue price of \$2.3 billion. There have been no further issuances or conversions of Preferred Stock during 2014.

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## 17. Shareholders' Equity (continued)

## Accumulated Other Comprehensive Income

A summary of changes in the components of accumulated other comprehensive income (loss), including our proportionate share of equity method investee's accumulated other comprehensive income (loss), is as follows (in millions) (1):

|  | Foreign<br>currency<br>translation<br>adjustments<br>and other | Unamortized<br>actuarial gains<br>(losses) and<br>prior service<br>costs | Net<br>unrealized<br>gains<br>(losses) on<br>investments | Net<br>unrealized<br>gains<br>(losses) on<br>designated<br>hedges | Accumulated<br>other<br>comprehensive<br>income (loss) |
|--|--|--|--|---|--|
| Balance at December 31, 2011   | \$ 1,353   | \$ (819)   | \$ (29)  | \$ (29)   | \$ 476   |
| Other comprehensive income<br>before reclassifications (4)                 | \$ (439)   | \$ (181)   | \$ 11  | \$ 63   | \$ (546)   |
| Amounts reclassified from<br>accumulated other<br>comprehensive income (2) | (52)   | 149  | (6)  | (18)  | 73   |
| Equity method affiliates (3)   | 312  | 31   | 8  | 2   | 353  |
| Net current-period other<br>comprehensive income (loss)                    | (179)  | (1)  | 13   | 47  | (120)  |
| Balance at December 31, 2012   | \$ 1,174   | \$ (820)   | \$ (16)  | \$ 18   | \$ 356   |
| Other comprehensive income<br>before reclassifications (5)                 | \$ (756)   | \$ 283   | \$ 1   | \$ 56   | \$ (416)   |
| Amounts reclassified from<br>accumulated other<br>comprehensive income (2) |  | (10)   | (1)  | (81)  | (92)   |
| Equity method affiliates (3)   | 74   | 119  | 2  | 1   | 196  |
| Net current-period other<br>comprehensive income (loss)                    | (682)  | 392  | 2  | (24)  | (312)  |
| Balance at December 31, 2013   | \$ 492   | \$ (428)   | \$ (14)  | \$ (6)  | \$ 44  |
| Other comprehensive income<br>before reclassifications (6)                 | \$ (821)   | \$ (172)   | \$ 4   | \$ 10   | \$ (979)   |
| Amounts reclassified from<br>accumulated other<br>comprehensive income (2) | (136)  | 18   | 1  | (6)   | (123)  |
| Equity method affiliates (3)   | (116)  | (127)  | (6)  |   | (249)  |
| Net current-period other<br>comprehensive income (loss)                    | (1,073)  | (281)  | (1)  | 4   | (1,351)  |
| Balance at December 31, 2014   | \$ (581)   | \$ (709)   | \$ (15)  | \$ (2)  | \$ (1,307)   |

(1) All amounts are after tax. Amounts in parentheses indicate debits to accumulated other comprehensive income.

(2) Tax effects of reclassifications are disclosed separately in this Note 17.

(3) Tax effects related to equity method affiliates are not significant.

(4)

Amounts are net of total tax benefit of \$56 million, including \$(37) million related to the hedges component, \$99 million related to the retirement plans component and \$(6) million related to the investments component.

(5) Amounts are net of total tax expense of \$(197) million, including \$(33) million related to the hedges component and \$(164) million related to the retirement plans component.

(6) Amounts are net of total tax benefit of \$96 million, including \$(7) million related to the hedges component and \$104 million related to the retirement plans component and \$(1) million related to the investments component.

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## 17. Shareholders' Equity (continued)

(In millions)

| Details about AOCI Components             | Reclassifications Out of Accumulated Other Comprehensive Income (AOCI) by Component (1) |       |          | Affected line item<br>in the consolidated<br>statements of income |
|---|---|-------|----------|---|
|   | Amount reclassified from AOCI<br>Years ended December 31,                               |       |          |   |
|   | 2014  | 2013  | 2012     |   |
| Foreign currency translation adjustment   | \$ 136  |       |          | Transaction-related gain, net                                     |
|   |   |       | \$ 52    | Other income, net   |
|   | 136   |       | 52       | Net of tax  |
| Amortization of net actuarial (loss) gain | \$ (29)   | \$ 15 | \$ (233) | (2)   |
| Amortization of prior service cost        |   | 1     | (2)      | (2)   |
|   | (29)  | 16    | (235)    | Total before tax  |
|   | 11  | (6)   | 86       | Tax benefit (expense)   |
|   | \$ (18)   | \$ 10 | \$ (149) | Net of tax  |
| Realized (losses) gains on investments    | \$ (1)  | \$ 1  | \$ 10    | Other income, net   |
|   |   |       | (4)      | Tax expense   |
|   | \$ (1)  | \$ 1  | \$ 6     | Net of tax  |
| Realized gains on designated hedges       | \$ 3  |       | \$ 1     | Sales   |
|   | 7   | \$ 38 | 16       | Cost of sales   |
|   |   | 91    | 11       | Other income, net   |
|   | 10  | 129   | 28       | Total before tax  |
|   | (4)   | (48)  | (10)     | Tax expense   |
|   | \$ 6  | \$ 81 | \$ 18    | Net of tax  |
| Total reclassifications for the period    | \$ 123  | \$ 92 | \$ (73)  | Net of tax  |

(1) Amounts in parentheses indicate debits to the statement of income.

(2) These accumulated other comprehensive income components are included in net periodic pension cost. See Note 13 – Employee Retirement Plans for additional details.

## 18. Earnings Per Common Share

Basic earnings per common share are computed by dividing income attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share assumes the issuance of common shares for all potentially dilutive securities outstanding.

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## 18. Earnings Per Common Share (continued)

The reconciliation of the amounts used to compute basic and diluted earnings per common share from continuing operations follows (in millions, except per share amounts):

|   | Years ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2014                     | 2013     | 2012     |
| Net income attributable to Corning Incorporated                                 | \$ 2,472                 | \$ 1,961 | \$ 1,636 |
| Less: Series A convertible preferred stock dividend                             | 94                       |          |          |
| Net income available to common stockholders - basic                             | 2,378                    | 1,961    | 1,636    |
| Plus: Series A convertible preferred stock dividend                             | 94                       |          |          |
| Net income available to common stockholders - diluted                           | \$ 2,472                 | \$ 1,961 | \$ 1,636 |
| Weighted-average common shares outstanding - basic                              | 1,305                    | 1,452    | 1,494    |
| Effect of dilutive securities:  |                          |          |          |
| Stock options and other dilutive securities                                     | 12                       | 10       | 12       |
| Series A convertible preferred stock dividend                                   | 110                      |          |          |
| Weighted-average common shares outstanding - diluted                            | 1,427                    | 1,462    | 1,506    |
| Basic earnings per common share   | \$ 1.82                  | \$ 1.35  | \$ 1.10  |
| Diluted earnings per common share   | \$ 1.73                  | \$ 1.34  | \$ 1.09  |
| Anti-dilutive potential shares excluded from diluted earnings per common share: |                          |          |          |
| Employee stock options and awards   | 24                       | 39       | 43       |
| Accelerated share repurchase forward contract                                   | 3                        | 3        |          |
| Total   | 27                       | 42       | 43       |

## 19. Share-based Compensation

## Stock Compensation Plans

We maintain long-term incentive plans (the Plans) for key team members and non-employee members of our Board of Directors. The Plans allow us to grant equity-based compensation awards, including stock options, stock appreciation rights, performance share units, restricted stock units, restricted stock awards or a combination of awards (collectively, share-based awards). At December 31, 2014, there were approximately 75 million unissued common shares available for future grants under the Plans.

The Company measures and recognizes compensation cost for all share-based payment awards made to employees and directors based on estimated fair values.

The fair value of awards granted subsequent to January 1, 2006 that are expected to ultimately vest is recognized as expense over the requisite service periods. The number of options expected to vest equals the total options granted less an estimation of the number of forfeitures expected to occur prior to vesting. The forfeiture rate is calculated based on 15 years of historical data and is adjusted if actual forfeitures differ significantly from the original estimates. The effect of any change in estimated forfeitures would be recognized through a cumulative adjustment that would be included in compensation cost in the period of the change in estimate.

Total share-based compensation cost of \$58 million, \$54 million and \$70 million was disclosed in operating activities on the Company's Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012, respectively.

## Stock Options

Our stock option plans provide non-qualified and incentive stock options to purchase authorized but unissued, or treasury shares, at the market price on the grant date and generally become exercisable in installments from one to five years from the grant date. The maximum term of non-qualified and incentive stock options is 10 years from the grant date.

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## 19. Share-based Compensation (continued)

The following table summarizes information concerning options outstanding including the related transactions under the stock option plans for the year ended December 31, 2014:

|  | Number of<br>shares<br>(in thousands) | Weighted-<br>average<br>exercise price | Weighted-<br>average<br>remaining<br>contractual<br>term in years | Aggregate<br>intrinsic<br>value<br>(in thousands) |
|--|---------------------------------------|--|---|---|
| Options outstanding as of December 31, 2013      | 57,139                                | \$17.83                                |   |   |
| Granted  | 1,606                                 | 20.99                                  |   |   |
| Exercised  | (9,338)                               | 12.60                                  |   |   |
| Forfeited and expired                            | (683)                                 | 17.19                                  |   |   |
| Options outstanding as of December 31, 2014      | 48,724                                | 18.94                                  | 4.49  | \$229,808   |
| Options expected to vest as of December 31, 2014 | 48,562                                | 18.95                                  | 4.49  | 228,602   |
| Options exercisable as of December 31, 2014      | 35,445                                | 20.63                                  | 3.27  | 117,170   |

The aggregate intrinsic value (market value of stock less option exercise price) in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price on December 31, 2014, which would have been received by the option holders had all option holders exercised their "in-the-money" options as of that date. The total number of "in-the-money" options exercisable on December 31, 2014, was approximately 22 million.

The weighted-average grant-date fair value for options granted for the years ended December 31, 2014, 2013 and 2012 was \$8.29, \$5.02 and \$4.95, respectively. The total fair value of options that vested during the years ended December 31, 2014, 2013 and 2012 was approximately \$16 million, \$29 million and \$47 million, respectively. Compensation cost related to stock options for the years ended December 31, 2014, 2013 and 2012, was approximately \$22 million, \$25 million and \$37 million, respectively.

As of December 31, 2014, there was approximately \$8 million of unrecognized compensation cost related to stock options granted under the Plans. The cost is expected to be recognized over a weighted-average period of 1.7 years.

Proceeds received from the exercise of stock options were \$116 million for the year ended December 31, 2014, which were included in financing activities on the Company's Consolidated Statements of Cash Flows. The total intrinsic value of options exercised for the years ended December 31, 2014, 2013 and 2012 was approximately \$69 million, \$55 million and \$51 million, respectively. The income tax benefit realized from share-based compensation was not significant for the year ended December 31, 2014. There were no income tax benefits realized from share-based compensation for the years ended December 31, 2013 and 2012, due to net operating loss and credit carryforwards available to the Company. Refer to Note 6 (Income Taxes) to the Consolidated Financial Statements.

An award is considered vested when the employee's retention of the award is no longer contingent on providing subsequent service (the "non-substantive vesting period approach"). Awards to retirement eligible employees are fully vested at the date of grant, and the related compensation expense is recognized immediately upon grant or over the period from the grant date to the date of retirement eligibility for employees that become age 55 during the vesting period.

Corning uses a multiple-point Black-Scholes valuation model to estimate the fair value of stock option grants. Corning utilizes a blended approach for calculating the volatility assumption used in the multiple-point Black-Scholes valuation model defined as the weighted average of the short-term implied volatility, the most recent volatility for the period equal to the expected term, and the most recent 15-year historical volatility. The expected term assumption is the period of time the options are expected to be outstanding, and is calculated using a combination of historical exercise experience adjusted to reflect the current vesting period of options being valued, and partial life cycles of outstanding options. The risk-free rates used in the multiple-point Black-Scholes valuation model are the implied rates for a zero-coupon U.S. Treasury bond with a term equal to the option's expected term. The ranges given below reflect results from separate groups of employees exhibiting different exercise behavior.

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## 19. Share-based Compensation (continued)

The following inputs were used for the valuation of option grants under our Stock Option Plans:

|                             | 2014 |   |       | 2013 |   |       | 2012 |   |       |
|-----------------------------|------|---|-------|------|---|-------|------|---|-------|
| Expected volatility         | 45.4 | - | 46.2% | 46.5 | - | 47.4% | 47.8 | - | 48.9% |
| Weighted-average volatility | 45.4 | - | 46.2% | 46.6 | - | 47.3% | 48.0 | - | 48.5% |
| Expected dividends          | 1.90 | - | 2.09% | 2.35 | - | 3.02% | 2.28 | - | 3.31% |
| Risk-free rate              | 2.0  | - | 2.2%  | 0.8  | - | 2.2%  | 0.8  | - | 1.3%  |
| Average risk-free rate      | 2.0  | - | 2.2%  | 1.1  | - | 2.2%  | 1.0  | - | 1.3%  |
| Expected term (in years)    | 7.2  | - | 7.2   | 5.8  | - | 7.2   | 5.7  | - | 7.1   |
| Pre-vesting departure rate  | 0.5  | - | 0.5%  | 0.4  | - | 4.1%  | 0.4  | - | 4.2%  |

## Incentive Stock Plans

The Corning Incentive Stock Plan permits restricted stock and restricted stock unit grants, either determined by specific performance goals or issued directly, in most instances, subject to the possibility of forfeiture and without cash consideration. Restricted stock and restricted stock units under the Incentive Stock Plan are granted at the closing market price on the grant date, contingently vest over a period of generally one to ten years, and generally have contractual lives of one to ten years. The fair value of each restricted stock grant or restricted stock unit awarded under the Incentive Stock Plan was estimated on the date of grant.

## Time-Based Restricted Stock and Restricted Stock Units:

Time-based restricted stock and restricted stock units are issued by the Company on a discretionary basis, and are payable in shares of the Company's common stock upon vesting. The fair value is based on the closing market price of the Company's stock on the grant date. Compensation cost is recognized over the requisite vesting period and adjusted for actual forfeitures before vesting.

The following table represents a summary of the status of the Company's non-vested time-based restricted stock and restricted stock units as of December 31, 2013, and changes which occurred during the year ended December 31, 2014:

|  | Shares<br>(000's) | Weighted-<br>average<br>grant-date<br>fair value |
|--|-------------------|--|
| Non-vested shares at December 31, 2013                 | 6,108             | \$14.58  |
| Granted  | 1,566             | 20.46  |
| Vested   | (1,803)           | 16.95  |
| Forfeited  | (134)             | 14.90  |
| Non-vested shares and share units at December 31, 2014 | 5,737             | 15.43  |

As of December 31, 2014, there was approximately \$22 million of unrecognized compensation cost related to nonvested time-based restricted stock and restricted stock units compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted-average period of 2.0 years. The total fair value of time-based restricted stock that vested during the years ended December 31, 2014, 2013 and 2012 was approximately \$32 million, \$29 million and \$13 million, respectively. Compensation cost related to time-based restricted stock and restricted stock units was approximately \$36 million, \$29 million and \$31 million for the years ended December 31, 2014, 2013 and 2012, respectively.



Performance-Based Restricted Stock and Restricted Stock Units:

The performance-based restricted stock and restricted stock unit compensation program was terminated in 2010. All performance-based restricted stock and restricted stock units were fully vested in the first quarter of 2012.

Performance-based restricted stock and restricted stock units were earned upon the achievement of certain targets, and were payable in shares of the Company's common stock upon vesting, typically over a three-year period. The fair value was based on the closing market price of the Company's stock on the grant date and assumed that the target payout level will be achieved. Compensation cost was recognized over the requisite vesting period and adjusted for actual forfeitures before vesting. During the performance period, compensation cost was adjusted based on changes in the expected outcome of the performance-related target.

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19. Share-based Compensation (continued)

As of December 31, 2014, there is no unrecognized compensation cost related to non-vested performance-based restricted stock and restricted stock units compensation arrangements granted under the Plan. The total fair value of performance-based restricted stock that vested during the year ended December 31, 2012, was approximately \$45 million. Compensation cost related to performance-based restricted stock and restricted stock units was approximately \$2 million for the year ended December 31, 2012.

20. Reportable Segments

Our reportable segments are as follows:

- Display Technologies – manufactures glass substrates for flat panel liquid crystal displays.
- Optical Communications – manufactures carrier network and enterprise network components for the telecommunications industry.
- Environmental Technologies – manufactures ceramic substrates and filters for automotive and diesel applications.
- Specialty Materials – manufactures products that provide more than 150 material formulations for glass, glass ceramics and fluoride crystals to meet demand for unique customer needs.
- Life Sciences – manufactures glass and plastic labware, equipment, media and reagents to provide workflow solutions for scientific applications.

All other reportable segments that do not meet the quantitative threshold for separate reporting have been grouped as “All Other.” This group is primarily comprised of development projects and results for new product lines.

We prepared the financial results for our reportable segments on a basis that is consistent with the manner in which we internally disaggregate financial information to assist in making internal operating decisions. We included the earnings of equity affiliates that are closely associated with our reportable segments in the respective segment’s net income. We have allocated certain common expenses among reportable segments differently than we would for stand-alone financial information. Segment net income may not be consistent with measures used by other companies. The accounting policies of our reportable segments are the same as those applied in the consolidated financial statements.

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## 20. Reportable Segments (continued)

The following provides historical segment information as described above:

## Segment Information (in millions)

|   | Display<br>Technologies | Optical<br>Communications | Environmental<br>Technologies | Specialty<br>Materials | Life<br>Sciences | All<br>Other | Total     |
|---|-------------------------|---------------------------|-------------------------------|------------------------|------------------|--------------|-----------|
| For the year ended  |                         |                           |                               |                        |                  |              |           |
| December 31, 2014   |                         |                           |                               |                        |                  |              |           |
| Net sales   | \$ 3,851                | \$ 2,652                  | \$ 1,092                      | \$ 1,205               | \$ 862           | \$ 53        | \$ 9,715  |
| Depreciation (1)  | \$ 676                  | \$ 154                    | \$ 119                        | \$ 113                 | \$ 60            | \$ 31        | \$ 1,153  |
| Amortization of<br>purchased<br>intangibles                 |                         | \$ 10                     |                               |                        | \$ 22            |              | \$ 32     |
| Research,<br>development and<br>engineering<br>expenses (2) | \$ 138                  | \$ 141                    | \$ 91                         | \$ 140                 | \$ 22            | \$ 177       | \$ 709    |
| Restructuring,<br>impairment and<br>other charges           | \$ 54                   | \$ 17                     |                               | \$ (1)                 | \$ 1             | \$ (3)       | \$ 68     |
| Equity in earnings<br>of affiliated<br>companies            | \$ (20)                 |                           | \$ 2                          |                        |                  | \$ 18        |           |
| Income tax<br>(provision) benefit                           | \$ (599)                | \$ (116)                  | \$ (91)                       | \$ (78)                | \$ (34)          | \$ 85        | \$ (833)  |
| Net income<br>(loss) (5)                                    | \$ 1,369                | \$ 205                    | \$ 182                        | \$ 144                 | \$ 71            | \$ (196)     | \$ 1,775  |
| Investment in<br>affiliated<br>companies, at<br>equity      | \$ 63                   | \$ 2                      | \$ 32                         |                        |                  | \$ 214       | \$ 311    |
| Segment assets (6)  | \$ 8,863                | \$ 1,737                  | \$ 1,297                      | \$ 1,288               | \$ 553           | \$ 518       | \$ 14,256 |
| Capital<br>expenditures                                     | \$ 492                  | \$ 145                    | \$ 173                        | \$ 104                 | \$ 30            | \$ 101       | \$ 1,045  |

## For the year ended

## December 31, 2013

|   |          |          |        |          |        |        |          |
|---|----------|----------|--------|----------|--------|--------|----------|
| Net sales   | \$ 2,545 | \$ 2,326 | \$ 919 | \$ 1,170 | \$ 851 | \$ 8   | \$ 7,819 |
| Depreciation (1)  | \$ 481   | \$ 147   | \$ 120 | \$ 137   | \$ 57  | \$ 18  | \$ 960   |
| Amortization of<br>purchased<br>intangibles                 |          | \$ 10    |        |          | \$ 21  |        | \$ 31    |
| Research,<br>development and<br>engineering<br>expenses (2) | \$ 84    | \$ 140   | \$ 89  | \$ 144   | \$ 20  | \$ 116 | \$ 593   |

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|  |          |          |          |          |         |          |          |
|--|----------|----------|----------|----------|---------|----------|----------|
| Restructuring, impairment and other charges    | \$ 7     | \$ 12    | \$ 1     | \$ 19    | \$ 4    | \$ 8     | \$ 51    |
| Equity in earnings of affiliated companies (4) | \$ 357   | \$ 2     | \$ 1     | \$ 4     |         | \$ (24)  | \$ 340   |
| Income tax (provision) benefit                 | \$ (327) | \$ (101) | \$ (65)  | \$ (91)  | \$ (36) | \$ 61    | \$ (559) |
| Net income (loss) (5)                          | \$ 1,267 | \$ 199   | \$ 132   | \$ 187   | \$ 71   | \$ (163) | \$ 1,693 |
| Investment in affiliated companies, at equity  | \$ 3,666 | \$ 3     | \$ 31    | \$ 10    |         | \$ 232   | \$ 3,942 |
| Segment assets (6)                             | \$ 9,501 | \$ 1,654 | \$ 1,230 | \$ 1,333 | \$ 551  | \$ 422   | \$14,691 |
| Capital expenditures                           | \$ 350   | \$ 105   | \$ 196   | \$ 62    | \$ 51   | \$ 55    | \$ 819   |

For the year ended

December 31, 2012

|  |          |          |          |          |         |         |          |
|--|----------|----------|----------|----------|---------|---------|----------|
| Net sales  | \$ 2,909 | \$ 2,130 | \$ 964   | \$ 1,346 | \$ 657  | \$ 6    | \$ 8,012 |
| Depreciation (1)                                   | \$ 514   | \$ 130   | \$ 117   | \$ 153   | \$ 44   | \$ 14   | \$ 972   |
| Amortization of purchased intangibles              |          | \$ 9     |          |          | \$ 10   |         | \$ 19    |
| Research, development and engineering expenses (2) | \$ 103   | \$ 137   | \$ 100   | \$ 143   | \$ 22   | \$ 123  | \$ 628   |
| Restructuring, impairment and other charges (3)    | \$ 21    | \$ 39    | \$ 3     | \$ 54    | \$ 2    |         | \$ 119   |
| Equity in earnings of affiliated companies (4)     | \$ 692   |          | \$ 1     |          |         | \$ 17   | \$ 710   |
| Income tax (provision) benefit                     | \$ (367) | \$ (58)  | \$ (58)  | \$ (69)  | \$ (14) | \$ 53   | \$ (513) |
| Net income (loss) (5)                              | \$ 1,589 | \$ 146   | \$ 112   | \$ 137   | \$ 28   | \$ (98) | \$ 1,914 |
| Investment in affiliated companies, at equity      | \$ 3,262 | \$ 17    | \$ 30    | \$ 4     |         | \$ 262  | \$ 3,575 |
| Segment assets (6)                                 | \$ 9,953 | \$ 1,435 | \$ 1,103 | \$ 1,707 | \$ 552  | \$ 351  | \$15,101 |
| Capital expenditures                               | \$ 845   | \$ 311   | \$ 154   | \$ 93    | \$ 47   | \$ 52   | \$ 1,502 |

(1) Depreciation expense for Corning's reportable segments includes an allocation of depreciation of corporate property not specifically identifiable to a segment.

(2) Research, development and engineering expenses include direct project spending that is identifiable to a segment.

- (3) In 2012, Corning recorded a \$44 million impairment charge in the Specialty Materials segment related to certain assets located in Japan used for the production of large cover glass.
- (4) In 2013, equity in earnings of affiliated companies in the Display Technologies segment included a \$28 million restructuring charge for our share of costs for headcount reductions and asset write-offs. In 2012, equity in earnings of affiliated companies in the Display Technologies segment included a \$18 million restructuring charge for our share of costs for headcount reductions and asset write-offs.
- (5) Many of Corning's administrative and staff functions are performed on a centralized basis. Where practicable, Corning charges these expenses to segments based upon the extent to which each business uses a centralized function. Other staff functions, such as corporate finance, human resources and legal are allocated to segments, primarily as a percentage of sales.
- (6) Segment assets include inventory, accounts receivable, property, plant and equipment, net, and associated equity companies and cost investments.

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## 20. Reportable Segments (continued)

For the year ended December 31, 2014, the following number of customers, which individually accounted for 10% or more of each segment's sales, represented the following concentration of segment sales:

- In the Display Technologies segment, three customers accounted for 61% of total segment sales.
- In the Optical Communications segment, one customer accounted for 11% of total segment sales.
- In the Environmental Technologies segment, three customers accounted for 88% of total segment sales.
  - In the Specialty Materials segment, three customers accounted for 51% of total segment sales.
  - In the Life Sciences segment, two customers accounted for 45% of total segment sales.

A significant amount of specialized manufacturing capacity for our Display Technologies segment is concentrated in Asia. It is at least reasonably possible that the use of a facility located outside of an entity's home country could be disrupted. Due to the specialized nature of the assets, it would not be possible to find replacement capacity quickly. Accordingly, loss of these facilities could produce a near-term severe impact to our display business and the Company as a whole.

A reconciliation of reportable segment net income (loss) to consolidated net income (loss) follows (in millions):

|  | Years ended December 31, |          |          |
|--|--------------------------|----------|----------|
|  | 2014                     | 2013     | 2012     |
| Net income of reportable segments                                  | \$ 1,971                 | \$ 1,856 | \$ 2,012 |
| Net loss of All Other  | (196)                    | (163)    | (98)     |
| Unallocated amounts:   |                          |          |          |
| Net financing costs (1)  | (113)                    | (66)     | (196)    |
| Stock-based compensation expense                                   | (58)                     | (54)     | (70)     |
| Exploratory research   | (102)                    | (112)    | (89)     |
| Corporate contributions  | (43)                     | (42)     | (44)     |
| Equity in earnings of affiliated companies, net of impairments (2) | 269                      | 207      | 82       |
| Asbestos settlement  | (13)                     | (19)     | (14)     |
| Purchased collars and average rate forward contracts               | 639                      | 197      |          |
| Other corporate items (3)  | 118                      | 157      | 53       |
| Net income   | \$ 2,472                 | \$ 1,961 | \$ 1,636 |

(1) Net financing costs include interest expense, interest income, and interest costs and investment gains and losses associated with benefit plans.

(2) Equity in earnings of affiliated companies is primarily equity in earnings of Dow Corning, which includes the following items:

- In 2014, Dow Corning's net income includes an after-tax gain of \$365 million from the reduction of the Implant Liability, an after-tax gain on a derivative instrument of \$29 million, foreign tax credits of approximately \$99 million, and an energy tax credit of approximately \$13 million, offset partially by the after-tax charge of \$432 million for the abandonment of a polycrystalline silicon plant expansion.
- In 2013, gains in the amount of approximately \$30 million for the resolution of contract disputes against customers relating to enforcement of long-term supply agreements and \$16 million for the positive impact of the settlement of a derivative, along with a charge of \$4 million related to the impact of a tax valuation allowance. Also included are restructuring charges in the amount of \$11 million.
- In 2012, restructuring and impairment charges in the amount of \$87 million for our share of a charge related to workforce reductions and asset write-offs at Dow Corning, and a \$10 million credit for Corning's share of Dow Corning's settlement of a dispute related to long term supply agreements.

- (3) Other corporate items include the tax impact of the unallocated amounts, excluding purchased collars and average rate forward contracts, and the following significant items:
- In 2014, Corning recorded \$150 million from changes in deferred tax valuation allowances and \$46 million of tax expense related to out-of-period transfer pricing adjustments.
  - In 2013, Corning recorded a \$54 million tax benefit for the impact of the American Taxpayer Relief Act enacted on January 3, 2013 and made retroactive to 2012.
  - In 2012, Corning recorded a \$52 million translation gain on the liquidation of a foreign subsidiary; a loss of \$26 million (\$17 million after tax) from the repurchase of \$13 million principal amount of our 8.875% senior unsecured notes due 2021, \$11 million of our 8.875% senior unsecured notes due 2016, and \$51 million principal amount of our 6.75% senior unsecured notes due 2013; and a \$37 million tax expense resulting from the delay of the passage of the American Taxpayer Relief Act of 2012 until January 2013, that was reversed in the first quarter of 2013.

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## 20. Reportable Segments (continued)

A reconciliation of reportable segment net assets to consolidated net assets follows (in millions):

|  | December 31, |           |           |
|--|--------------|-----------|-----------|
|  | 2014         | 2013      | 2012      |
| Total assets of reportable segments    | \$ 13,738    | \$ 14,269 | \$ 14,750 |
| Non-reportable segments                | 518          | 422       | 351       |
| Unallocated amounts:                   |              |           |           |
| Current assets (1)                     | 7,402        | 6,349     | 7,300     |
| Investments (2)                        | 1,490        | 1,595     | 1,340     |
| Property, plant and equipment, net (3) | 1,657        | 1,594     | 1,494     |
| Other non-current assets (4)           | 5,258        | 4,249     | 4,140     |
| Total assets                           | \$ 30,063    | \$ 28,478 | \$ 29,375 |

(1) Includes current corporate assets, primarily cash, short-term investments, current portion of long-term derivative assets and deferred taxes.

(2) Represents corporate investments in affiliated companies, at both cost and equity (primarily Dow Corning).

(3) Represents corporate property not specifically identifiable to an operating segment.

(4) Includes non-current corporate assets, pension assets, long-term derivative assets and deferred taxes.

Selected financial information concerning the Company's product lines and reportable segments follow (in millions):

|   | Fiscal Years Ended December 31, |          |          |
|---|---------------------------------|----------|----------|
|   | 2014                            | 2013     | 2012     |
| Revenues from External Customers          |                                 |          |          |
| Display Technologies                      | \$ 3,851                        | \$ 2,545 | \$ 2,909 |
| Optical Communications                    |                                 |          |          |
| Carrier network                           | 2,036                           | 1,782    | 1,619    |
| Enterprise network                        | 616                             | 544      | 511      |
| Total Optical Communications              | 2,652                           | 2,326    | 2,130    |
| Environmental Technologies                |                                 |          |          |
| Automotive and other                      | 528                             | 485      | 486      |
| Diesel                                    | 564                             | 434      | 478      |
| Total Environmental Technologies          | 1,092                           | 919      | 964      |
| Specialty Materials                       |                                 |          |          |
| Corning Gorilla Glass                     | 846                             | 848      | 1,027    |
| Advanced optics and other specialty glass | 359                             | 322      | 319      |
| Total Specialty Materials                 | 1,205                           | 1,170    | 1,346    |
| Life Sciences                             |                                 |          |          |
| Labware                                   | 536                             | 529      | 430      |
| Cell culture products                     | 326                             | 322      | 227      |
| Total Life Science                        | 862                             | 851      | 657      |



|           |          |          |          |
|-----------|----------|----------|----------|
| All Other | 53       | 8        | 6        |
|           | \$ 9,715 | \$ 7,819 | \$ 8,012 |

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## 20. Reportable Segments (continued)

Information concerning principal geographic areas was as follows (in millions):

|                      | 2014          |                       | 2013          |                       | 2012          |                       |
|----------------------|---------------|-----------------------|---------------|-----------------------|---------------|-----------------------|
|                      | Net sales (2) | Long-lived assets (1) | Net sales (2) | Long-lived assets (1) | Net sales (2) | Long-lived assets (1) |
| <b>North America</b> |               |                       |               |                       |               |                       |
| United States        | \$ 2,275      | \$ 7,998              | \$ 2,061      | \$ 7,170              | \$ 1,859      | \$ 6,771              |
| Canada               | 311           |                       | 308           |                       | 246           |                       |
| Mexico               | 35            | 50                    | 23            | 36                    | 24            | 87                    |
| Total North America  | 2,621         | 8,048                 | 2,392         | 7,206                 | 2,129         | 6,858                 |
| <b>Asia Pacific</b>  |               |                       |               |                       |               |                       |
| Japan                | 608           | 1,311                 | 621           | 1,548                 | 751           | 1,949                 |
| Taiwan               | 1,092         | 2,005                 | 1,376         | 2,277                 | 1,708         | 2,836                 |
| China                | 1,893         | 1,115                 | 1,916         | 1,218                 | 2,103         | 1,215                 |
| Korea                | 1,882         | 3,595                 | 96            | 3,234                 | 94            | 3,342                 |
| Other                | 308           | 109                   | 278           | 127                   | 243           | 84                    |
| Total Asia Pacific   | 5,783         | 8,135                 | 4,287         | 8,404                 | 4,899         | 9,426                 |
| <b>Europe</b>        |               |                       |               |                       |               |                       |
| Germany              | 397           | 217                   | 337           | 171                   | 264           | 139                   |
| France               | 81            | 277                   | 79            | 287                   | 57            | 267                   |
| United Kingdom       | 187           | 176                   | 165           | 6                     | 134           | 14                    |
| Other                | 369           | 980                   | 280           | 1,147                 | 274           | 550                   |
| Total Europe         | 1,034         | 1,650                 | 861           | 1,611                 | 729           | 970                   |
| <b>Latin America</b> |               |                       |               |                       |               |                       |
| Brazil               | 67            | 36                    | 77            | 66                    | 29            | 1                     |
| Other                | 35            |                       | 37            | 6                     | 33            | 6                     |
| Total Latin America  | 102           | 36                    | 114           | 72                    | 62            | 7                     |
| All Other            | 175           | 19                    | 165           | 25                    | 193           | 35                    |
| Total                | \$ 9,715      | \$ 17,888             | \$ 7,819      | \$ 17,318             | \$ 8,012      | \$ 17,296             |

(1) Long-lived assets primarily include investments, plant and equipment, goodwill and other intangible assets. In 2014, assets in the U.S. include the investment in Dow Corning. In 2013 and 2012, assets in the U.S. and South Korea include investments in Dow Corning and Samsung Corning Precision Materials.

(2) Net sales are attributed to countries based on location of customer.

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Corning Incorporated and Subsidiary Companies  
 Schedule II – Valuation Accounts and Reserves  
 (in millions)

| Year ended December 31, 2014                            | Balance at beginning of period | Additions | Net deductions and other | Balance at end of period |
|---|--------------------------------|-----------|--------------------------|--------------------------|
| Doubtful accounts and allowances                        | \$ 28                          | \$ 19     |                          | \$ 47                    |
| Deferred tax assets valuation allowance                 | \$ 286                         | \$ 186    | \$ 174                   | \$ 298                   |
| Accumulated amortization of purchased intangible assets | \$ 185                         | \$ 31     |                          | \$ 216                   |
| Reserves for accrued costs of business restructuring    | \$ 44                          | \$ 49     | \$ 49                    | \$ 44                    |
| Year ended December 31, 2013                            | Balance at beginning of period | Additions | Net deductions and other | Balance at end of period |
| Doubtful accounts and allowances                        | \$ 26                          | \$ 2      |                          | \$ 28                    |
| Deferred tax assets valuation allowance                 | \$ 210                         | \$ 80     | \$ 4                     | \$ 286                   |
| Accumulated amortization of purchased intangible assets | \$ 154                         | \$ 31     |                          | \$ 185                   |
| Reserves for accrued costs of business restructuring    | \$ 42                          | \$ 41     | \$ 39                    | \$ 44                    |
| Year ended December 31, 2012                            | Balance at beginning of period | Additions | Net deductions and other | Balance at end of period |
| Doubtful accounts and allowances                        | \$ 19                          | \$ 7      |                          | \$ 26                    |
| Deferred tax assets valuation allowance                 | \$ 219                         | \$ 10     | \$ 19                    | \$ 210                   |
| Accumulated amortization of purchased intangible assets | \$ 135                         | \$ 19     |                          | \$ 154                   |
| Reserves for accrued costs of business restructuring    | \$ 10                          | \$ 52     | \$ 20                    | \$ 42                    |

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Quarterly Operating Results  
(unaudited)

(In millions, except per share amounts)

|  | First<br>quarter | Second<br>quarter | Third<br>quarter | Fourth<br>quarter | Total<br>year |
|--|------------------|-------------------|------------------|-------------------|---------------|
| 2014   |                  |                   |                  |                   |               |
| Net sales  | \$ 2,289         | \$ 2,482          | \$ 2,540         | \$ 2,404          | \$ 9,715      |
| Gross margin                                       | \$ 935           | \$ 1,032          | \$ 1,089         | \$ 996            | \$ 4,052      |
| Restructuring, impairment and other<br>credits     | \$ 17            | \$ 34             |                  | \$ 20             | \$ 71         |
| Asbestos litigation charges                        | \$ 2             | \$ 4              | \$ 5             | \$ (20)           | \$ (9)        |
| Equity in earnings of affiliated<br>companies      | \$ 86            | \$ 62             | \$ 95            | \$ 23             | \$ 266        |
| Provision for income taxes                         | \$ (180)         | \$ (172)          | \$ (395)         | \$ (349)          | \$ (1,096)    |
| Net income attributable to Corning<br>Incorporated | \$ 301           | \$ 169            | \$ 1,014         | \$ 988            | \$ 2,472      |
| Basic earnings per common share                    | \$ 0.21          | \$ 0.11           | \$ 0.77          | \$ 0.76           | \$ 1.82       |
| Diluted earnings per common share                  | \$ 0.20          | \$ 0.11           | \$ 0.72          | \$ 0.70           | \$ 1.73       |
| 2013   |                  |                   |                  |                   |               |
| Net sales  | \$ 1,814         | \$ 1,982          | \$ 2,067         | \$ 1,956          | \$ 7,819      |
| Gross margin                                       | \$ 770           | \$ 883            | \$ 901           | \$ 770            | \$ 3,324      |
| Restructuring, impairment and other<br>charges     |                  |                   |                  | \$ 67             | \$ 67         |
| Asbestos litigation charges                        | \$ 2             | \$ 6              | \$ 5             | \$ 6              | \$ 19         |
| Equity in earnings of affiliated<br>companies      | \$ 173           | \$ 166            | \$ 138           | \$ 70             | \$ 547        |
| Provision for income taxes                         | \$ (34)          | \$ (191)          | \$ (141)         | \$ (146)          | \$ (512)      |
| Net income attributable to Corning<br>Incorporated | \$ 494           | \$ 638            | \$ 408           | \$ 421            | \$ 1,961      |
| Basic earnings per common share                    | \$ 0.33          | \$ 0.43           | \$ 0.28          | \$ 0.30           | \$ 1.35       |
| Diluted earnings per common share                  | \$ 0.33          | \$ 0.43           | \$ 0.28          | \$ 0.30           | \$ 1.34       |

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DOW CORNING CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
For the period ended December 31, 2014

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DOW CORNING CORPORATION AND SUBSIDIARIES  
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## Independent Auditor's Report

To the Board of Directors of  
Dow Corning Corporation

We have audited the accompanying consolidated financial statements of Dow Corning Corporation and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2014.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dow Corning Corporation and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP  
Detroit, Michigan  
February 4, 2015

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DOW CORNING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(in millions of U.S. dollars, except for per share amounts)

|   | Years Ended December 31, |            |            |
|---|--------------------------|------------|------------|
|   | 2014                     | 2013       | 2012       |
| Net Sales   | \$ 6,221.3               | \$ 5,710.5 | \$ 6,118.5 |
| <b>Operating Costs and Expenses</b>                               |                          |            |            |
| Cost of sales   | 4,678.1                  | 4,430.6    | 4,705.1    |
| Marketing and administrative expenses                             | 663.1                    | 699.5      | 787.3      |
| Gains on long-term sales agreements                               | (39.0)                   | (228.5)    | (48.2)     |
| Asset charges and restructuring expenses                          | 1,481.0                  | 165.5      | 365.0      |
| Total operating costs and expenses                                | 6,783.2                  | 5,067.1    | 5,809.2    |
| Operating Income (Loss)   | (561.9)                  | 643.4      | 309.3      |
| Interest income   | 9.3                      | 7.9        | 11.9       |
| Interest expense  | (49.0)                   | (45.7)     | (3.9)      |
| Other nonoperating income, net                                    | 8.4                      | 61.9       | 30.9       |
| Implant liability adjustment                                      | 1,299.8                  | -          | -          |
| Income before Income Taxes  | 706.6                    | 667.5      | 348.2      |
| Income tax provision  | 132.0                    | 233.8      | 162.9      |
| Net Income  | 574.6                    | 433.7      | 185.3      |
| Less: Noncontrolling interests' share in net income               | 61.8                     | 57.4       | (2.4)      |
| Net Income Attributable to Dow Corning Corporation                | \$ 512.8                 | \$ 376.3   | \$ 187.7   |
| Weighted-Average Common Shares Outstanding<br>(basic and diluted) | 2.5                      | 2.5        | 2.5        |
| Net Income per Share (basic and diluted)                          | \$ 205.12                | \$ 150.52  | \$ 75.08   |
| Dividends Declared per Common Share                               | \$ 100.00                | \$ 80.00   | \$ 80.00   |

(See Notes to the Consolidated Financial Statements)

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DOW CORNING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(in millions of U.S. dollars)

|   | Years Ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2014                     | 2013     | 2012     |
| Net Income  | \$ 574.6                 | \$ 433.7 | \$ 185.3 |
| Other comprehensive income (loss), before tax:                |                          |          |          |
| Foreign currency translation adjustments                      | (170.8)                  | (2.7)    | (26.9)   |
| Unrealized net gain (loss) on securities:                     |                          |          |          |
| Unrealized holding gain arising during the period             | 8.2                      | 4.8      | 22.7     |
| Reclassification adjustment for gain included in income       | (17.6)                   | -        | (3.4)    |
| Net gain (loss) on cash flow hedges:                          |                          |          |          |
| Unrealized gain (loss) arising during the period              | -                        | 0.2      | (2.9)    |
| Reclassification adjustment for loss included in income       | -                        | 5.4      | 9.4      |
| Defined benefit plan adjustments:                             |                          |          |          |
| Gain (loss) arising during the period                         | (467.7)                  | 292.7    | 23.8     |
| Amortization of pension adjustments included in income        | 49.0                     | 81.5     | 84.2     |
| Other comprehensive income (loss), before tax                 | (598.9)                  | 381.9    | 106.9    |
| Income tax (expense) benefit related to items of OCI          | 141.9                    | (130.1)  | (40.3)   |
| Other comprehensive income (loss), net of tax                 | (457.0)                  | 251.8    | 66.6     |
| Comprehensive Income  | 117.6                    | 685.5    | 251.9    |
|   |                          |          |          |
| Less: Noncontrolling interests' share in comprehensive income | 47.4                     | 44.4     | (16.5)   |
| Comprehensive Income Attributable to Dow Corning Corporation  | \$ 70.2                  | \$ 641.1 | \$ 268.4 |

(See Notes to the Consolidated Financial Statements)

1Other Comprehensive Income/(Loss) ("OCI")

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DOW CORNING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in millions of U.S. dollars)

## ASSETS

|   | December 31,<br>2014 | December 31,<br>2013 |
|---|----------------------|----------------------|
| <b>Current Assets</b>   |                      |                      |
| Cash and cash equivalents   | \$ 2,291.2           | \$ 1,826.1           |
| Accounts receivable (net of allowance for doubtful accounts of \$10.4 in 2014 and 2013) | 745.9                | 721.4                |
| Notes and other receivables   | 246.0                | 225.7                |
| Inventories   | 1,083.8              | 1,003.8              |
| Deferred income taxes - current   | 263.7                | 106.0                |
| Other current assets  | 81.4                 | 112.7                |
| Total current assets  | 4,712.0              | 3,995.7              |
| Property, Plant and Equipment   | 10,683.1             | 12,538.4             |
| Less - Accumulated Depreciation   | (5,276.3)            | (5,307.3)            |
| Net property, plant and equipment   | 5,406.8              | 7,231.1              |
| <b>Other Assets</b>   |                      |                      |
| Marketable securities   | 86.1                 | 96.3                 |
| Deferred income taxes - noncurrent  | 311.0                | 362.1                |
| Intangible assets (net of accumulated amortization of \$58.4 in 2014 and 2013)          | 70.9                 | 77.1                 |
| Goodwill  | 61.9                 | 70.3                 |
| Other noncurrent assets   | 496.4                | 469.5                |
| Total other assets  | 1,026.3              | 1,075.3              |
| <b>Total Assets</b>   | <b>\$ 11,145.1</b>   | <b>\$ 12,302.1</b>   |

(See Notes to the Consolidated Financial Statements)

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DOW CORNING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in millions of U.S. dollars)

## LIABILITIES AND STOCKHOLDERS' EQUITY

|   | December 31, 2014 | December 31, 2013 |
|---|-------------------|-------------------|
| <b>Current Liabilities</b>  |                   |                   |
| Short-term borrowings and current maturities of long-term debt                        | \$ 7.0            | \$ 79.3           |
| Trade accounts payable  | 522.9             | 460.0             |
| Accrued payrolls and employee benefits  | 207.0             | 149.6             |
| Accrued taxes   | 99.2              | 87.7              |
| Accrued interest  | 106.8             | 101.4             |
| Current deferred revenue  | 319.6             | 305.2             |
| Other current liabilities   | 185.7             | 162.8             |
| Total current liabilities   | 1,448.2           | 1,346.0           |
| <b>Other Liabilities</b>  |                   |                   |
| Long-term debt  | 945.4             | 937.1             |
| Implant liability   | 363.6             | 1,616.4           |
| Employee benefits   | 1,552.0           | 1,137.0           |
| Deferred income tax liabilities - noncurrent  | 42.2              | 20.3              |
| Deferred revenue  | 2,882.7           | 3,137.4           |
| Other noncurrent liabilities  | 284.3             | 329.3             |
| Total other liabilities   | 6,070.2           | 7,177.5           |
| <b>Equity</b>   |                   |                   |
| Stockholders' equity  |                   |                   |
| Common stock (\$5.00 par value - 2,500,000 shares authorized, issued and outstanding) | 12.5              | 12.5              |
| Retained earnings   | 3,794.6           | 3,531.8           |
| Accumulated other comprehensive loss  | (814.4)           | (371.8)           |
| Dow Corning Corporation's stockholders' equity  | 2,992.7           | 3,172.5           |
| Noncontrolling interest in consolidated subsidiaries                                  | 634.0             | 606.1             |
| Total equity  | 3,626.7           | 3,778.6           |
| Total Liabilities and Equity  | \$ 11,145.1       | \$ 12,302.1       |

(See Notes to the Consolidated Financial Statements)

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**DOW CORNING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions of U.S. dollars)

|  | Years ended December 31, |          |           |
|--|--------------------------|----------|-----------|
|  | 2014                     | 2013     | 2012      |
| <b>Cash Flows from Operating Activities</b>                    |                          |          |           |
| Net income   | \$ 574.6                 | \$ 433.7 | \$ 185.3  |
| Depreciation and amortization                                  | 491.3                    | 490.1    | 398.6     |
| Gains on long-term sales agreements                            | (39.0)                   | (228.5)  | (48.2)    |
| Cash flows related to gains on long-term sales agreements      | -                        | 183.2    | 213.7     |
| Asset charges and restructuring expenses                       | 1,481.0                  | 113.9    | 365.0     |
| Changes in restructuring accrual                               | (14.3)                   | (53.1)   | -         |
| Changes in deferred revenue, net                               | (201.2)                  | (77.8)   | (35.8)    |
| Changes in deferred taxes, net                                 | 45.7                     | (68.7)   | 66.2      |
| Tax-related bond deposits, net                                 | 29.2                     | 17.9     | 112.2     |
| Other, net   | 83.8                     | 119.3    | 109.1     |
| Changes in operating assets and liabilities                    |                          |          |           |
| Changes in accounts and notes receivable                       | (46.1)                   | 29.9     | 169.6     |
| Changes in accounts payable                                    | 36.7                     | 11.5     | (110.4)   |
| Changes in inventory   | (123.6)                  | 3.1      | 69.3      |
| Changes in other operating assets and liabilities              | 98.6                     | 14.6     | 35.0      |
| Cash flows related to reorganization, net                      | (0.4)                    | (24.4)   | (26.8)    |
| Implant liability adjustment                                   | (1,299.8)                | -        | -         |
| Cash provided by operating activities                          | 1,116.5                  | 964.7    | 1,502.8   |
| <b>Cash Flows from Investing Activities</b>                    |                          |          |           |
| Capital expenditures   | (249.8)                  | (363.3)  | (1,042.0) |
| Proceeds from sales, maturities, and redemptions of securities | 18.9                     | -        | 117.3     |
| Other, net   | (58.5)                   | (29.9)   | (6.2)     |
| Cash used in investing activities                              | (289.4)                  | (393.2)  | (930.9)   |
| <b>Cash Flows from Financing Activities</b>                    |                          |          |           |
| Increase in short-term borrowings                              | -                        | 99.0     | 71.2      |
| Payments of short-term borrowings                              | (73.2)                   | (99.0)   | (134.4)   |
| Increase in long-term debt                                     | 16.3                     | 166.1    | -         |
| Payments of long-term debt                                     | (12.6)                   | (202.6)  | (655.2)   |
| Loans from noncontrolling shareholders                         | -                        | -        | 112.2     |
| Distributions to shareholders of noncontrolling interests      | (19.5)                   | (14.0)   | (63.6)    |
| Acquisition of additional shares of noncontrolling interests   | -                        | (266.0)  | -         |
| Dividends paid to stockholders                                 | (250.0)                  | (200.0)  | (200.0)   |
| Cash used in financing activities                              | (339.0)                  | (516.5)  | (869.8)   |
| Effect of Exchange Rate Changes on Cash                        | (23.0)                   | 0.7      | 2.2       |
| <b>Changes in Cash and Cash Equivalents</b>                    |                          |          |           |
| Net increase (decrease) in cash and cash equivalents           | 465.1                    | 55.7     | (295.7)   |

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|  |            |            |            |
|--|------------|------------|------------|
| Cash and cash equivalents at beginning of period | 1,826.1    | 1,770.4    | 2,066.1    |
| Cash and cash equivalents at end of period       | \$ 2,291.2 | \$ 1,826.1 | \$ 1,770.4 |

(See Notes to the Consolidated Financial Statements)

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DOW CORNING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EQUITY  
(in millions of U.S. dollars)

|  | Dow Corning Corporation Stockholders' Equity |                            |                         |                      |            |                 |
|--|--|----------------------------|-------------------------|----------------------|------------|-----------------|
|  | Total  | Noncontrolling<br>Interest | Stockholders'<br>Equity | Retained<br>Earnings | AOCI1      | Common<br>Stock |
| Balance as of<br>December 31, 2011   | \$<br>3,584.9                                | \$ 767.1                   | \$ 2,817.8              | \$ 3,522.6           | \$ (717.3) | \$ 12.5         |
| Net Income   | 185.3  | (2.4)                      | 187.7                   | 187.7                |            |                 |
| Other comprehensive<br>income (loss), net of<br>tax  |  |                            |                         |                      |            |                 |
| Foreign currency<br>translation<br>adjustments   | (26.9)                                       | (16.3)                     | (10.6)                  |                      | (10.6)     |                 |
| Unrealized net<br>gain on available<br>for sale securities   | 19.3   | 1.8                        | 17.5                    |                      | 17.5       |                 |
| Net loss on cash<br>flow hedges  | 4.1  | -                          | 4.1                     |                      | 4.1        |                 |
| Pension and<br>other<br>postretirement<br>benefit<br>adjustments   | 70.1   | 0.4                        | 69.7                    |                      | 69.7       |                 |
| Total comprehensive<br>income (loss)   | 251.9  | (16.5)                     | 268.4                   |                      |            |                 |
| Dividends declared on<br>common stock,<br>distributions to<br>shareholders of<br>noncontrolling interests<br>and other | (263.6)                                      | (63.6)                     | (200.0)                 | (200.0)              |            |                 |
| Balance as of<br>December 31, 2012   | \$<br>3,573.2                                | \$ 687.0                   | \$ 2,886.2              | \$ 3,510.3           | \$ (636.6) | \$ 12.5         |
| Net Income   | 433.7  | 57.4                       | 376.3                   | 376.3                |            |                 |
| Other comprehensive<br>income (loss), net of<br>tax  |  |                            |                         |                      |            |                 |
| Foreign currency<br>translation<br>adjustments   | (2.7)  | (14.2)                     | 11.5                    |                      | 11.5       |                 |
|  | 4.8  | 1.1                        | 3.7                     |                      | 3.7        |                 |

|   |            |          |            |            |            |         |
|---|------------|----------|------------|------------|------------|---------|
| Unrealized net gain on available for sale securities  |            |          |            |            |            |         |
| Net gain on cash flow hedges  | 3.6        | -        | 3.6        |            | 3.6        |         |
| Pension and other postretirement benefit adjustments  | 246.1      | 0.1      | 246.0      |            | 246.0      |         |
| Total comprehensive income  | 685.5      | 44.4     | 641.1      |            |            |         |
| Dividends declared on common stock, distributions to shareholders of noncontrolling interests and other | (214.0)    | (14.0)   | (200.0)    | (200.0)    |            |         |
| Acquisition of additional shares of noncontrolling interests  | (266.1)    | (111.3)  | (154.8)    | (154.8)    |            |         |
| Balance as of December 31, 2013   | \$ 3,778.6 | \$ 606.1 | \$ 3,172.5 | \$ 3,531.8 | \$ (371.8) | \$ 12.5 |
| Net Income  | 574.6      | 61.8     | 512.8      | 512.8      |            |         |
| Other comprehensive income (loss), net of tax   |            |          |            |            |            |         |
| Foreign currency translation adjustments  | (170.8)    | (12.7)   | (158.1)    |            | (158.1)    |         |
| Unrealized net (loss) on available for sale securities  | (9.4)      | (1.6)    | (7.8)      |            | (7.8)      |         |
| Pension and other postretirement benefit adjustments  | (276.8)    | (0.1)    | (276.7)    |            | (276.7)    |         |
| Total comprehensive income  | 117.6      | 47.4     | 70.2       |            |            |         |
| Dividends declared on common stock, distributions to shareholders of noncontrolling interests and other | (269.5)    | (19.5)   | (250.0)    | (250.0)    |            |         |
| Balance as of December 31, 2014   | \$ 3,626.7 | \$ 634.0 | \$ 2,992.7 | \$ 3,794.6 | \$ (814.4) | \$ 12.5 |

(See Notes to the Consolidated Financial Statements)

1 Accumulated Other Comprehensive Income/(Loss) ("AOCI")

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DOW CORNING CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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DOW CORNING CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in millions of U.S. dollars, except where noted)

NOTE 1 – BUSINESS AND BASIS OF PRESENTATION

Dow Corning Corporation (“Dow Corning”) was incorporated in 1943 and is equally owned by Corning Incorporated (“Corning”) and The Dow Chemical Company (“Dow Chemical”). Its main purpose is to develop and produce polymers and other materials based on silicon chemistry. Dow Corning operates in various countries around the world through numerous wholly owned or majority owned subsidiary corporations (hereinafter, the consolidated operations of Dow Corning and its subsidiaries may be referred to as the “Company”).

Dow Corning built its business based on silicon chemistry. Silicon is one of the most abundant elements in the world. Most of Dow Corning’s products are based on polymers known as silicones, which have a silicon-oxygen-silicon backbone. Through various chemical processes, Dow Corning manufactures silicones that have an extremely wide variety of characteristics, in forms ranging from fluids, gels, greases, and elastomeric materials to resins and other rigid materials. Silicones combine the temperature and chemical resistance of glass with the versatility of plastics. Regardless of form or application, silicones generally possess such qualities as electrical resistance, resistance to extreme temperatures, resistance to deterioration from aging, water repellency, lubricating characteristics, relative chemical and physiological inertness, and resistance to ultraviolet radiation.

The Company engages primarily in the discovery, development, manufacturing, marketing, and distribution of silicon-based materials. Since its inception, Dow Corning has been engaged in a continuous program of basic and applied research on silicon-based materials to develop new products and processes, to improve and refine existing products and processes, and to develop new applications for existing products. The Company manufactures over 7,000 products and serves approximately 25,000 customers worldwide, with no single customer accounting for more than five percent of the Company’s sales in any of the past three years. Dow Corning’s silicon-based materials are used in a broad range of products and applications across multiple sectors such as electronics, automotive, construction, textiles, and healthcare. The Company, through its Hemlock Semiconductor Group subsidiaries, is a provider of polycrystalline silicon used in semiconductor and solar applications. Principal United States manufacturing plants are located in Kentucky and Michigan. Principal foreign manufacturing plants are located in Belgium, Brazil, China, France, Germany, Japan, South Korea, and the United Kingdom. The Company operates research and development facilities and/or technical service centers in the United States, Belgium, Brazil, China, Germany, Japan, Singapore, South Korea, Taiwan, and the United Kingdom.

The consolidated financial statements include the accounts of the Company and its subsidiaries. Management has evaluated subsequent events through February 4, 2015, the date the financial statements were available to be issued. Certain prior period items have been reclassified to conform to the current presentation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Dow Corning and all of its wholly owned and majority owned domestic and foreign subsidiaries. The Company’s interests in 20% to 50% owned subsidiaries are carried on the equity basis and are included in “Other noncurrent assets” in the consolidated balance sheets. Intercompany transactions and balances have been eliminated in consolidation. The Company’s policy is to include the accounts of

entities in which the Company holds a controlling interest based on exposure to economic risks and potential rewards (variable interests), and for which it is the primary beneficiary, in the Company's consolidated financial statements.

#### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting period, and disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

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## Fair Value Measurements

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Level 1 inputs are unadjusted, quoted prices for identical assets or liabilities in active markets. Level 2 inputs are quoted prices, not included in Level 1, that are either directly or indirectly observable, including quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets. Level 3 inputs are unobservable inputs and include the Company's assumptions that may be used by market participants.

## Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with an original maturity of ninety days or less. The carrying amounts for cash equivalents approximate their fair values. Cash equivalents are measured at fair value using Level 1 inputs.

## Accounts Receivable

The Company maintains an allowance for doubtful accounts that reduces receivables to amounts that are expected to be collected. In estimating the allowance, management considers factors such as current overall geographic and industry-specific economic conditions, statutory requirements, historical and anticipated customer performance, historical experience with write-offs, and the level of past-due amounts. Changes in these conditions may result in additional allowances. After all attempts to collect a receivable have failed and local legal requirements are met, the receivable is written off against the allowance.

## Inventories

The value of inventories is determined using the lower of cost or market as the basis. Produced goods are valued using a first-in, first-out cost flow methodology, while purchased materials and supplies are valued using an average cost flow methodology.

## Property and Depreciation

Property, plant and equipment are carried at cost less any impairment and are depreciated over estimated useful lives using the straight-line method. Engineering and other costs directly related to the construction of property, plant and equipment are capitalized as construction-in-progress until construction is complete and such property, plant and equipment is ready and available to perform its specifically assigned function. Upon retirement or other disposal, the asset cost and related accumulated depreciation are removed from the accounts and the net amount, less any proceeds, is charged or credited to income.

The Company reviews the recoverability of property, plant and equipment when events or changes in circumstances occur that indicate that the carrying value of an asset (or asset group) may not be recoverable. The recoverability of the carrying value of property, plant and equipment is assessed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. When impairment indicators are present, the Company compares estimated undiscounted future cash flows, including estimated proceeds from the eventual disposition of the asset, to the assets' carrying value to determine if the asset (or asset group) is recoverable. For an asset that fails the test of recoverability, the estimated fair value of property, plant and equipment is determined and the carrying amount of the asset is reduced to its fair value and the difference is charged to income in the period



incurred.

The Company capitalizes the costs of internal-use software and includes the costs in “Property, Plant and Equipment” in the consolidated balance sheets. The amounts capitalized and subsequently amortized do not have a material impact on the Company’s consolidated financial position or results of operations.

Expenditures for maintenance and repairs are charged against income as incurred. Expenditures that significantly increase asset value, extend asset useful lives, or adapt property to a new or different use are capitalized.

The Company capitalizes interest as a component of the cost of capital assets constructed for its own use. The Company includes interest expense incurred on all liabilities, including interest related to commercial creditor obligations, in the amount of interest expense subject to capitalization. See Note 17 for additional details on interest payable to the Company’s commercial creditors.

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The Company accounts for asset retirement obligations by recording an asset and related liability for the costs associated with the retirement of long-lived tangible assets when a legal liability to retire the assets exists. These obligations may result from acquisition, construction, or the normal operation of a long-lived asset. The Company records asset retirement obligations at fair value in the period incurred. The Company's asset retirement obligations do not have a material impact on the Company's consolidated financial position or results of operations.

In addition, the Company has identified conditional asset retirement obligations, such as for the removal of asbestos and records such obligations when there are plans in place to undertake major renovations or plans to exit a facility. Due to the nature of the Company's operations, the Company believes that there is an indeterminate settlement date for the existing conditional asset retirement obligations as the range of time over which the Company may settle the obligation is unknown or cannot be estimated. Therefore, the Company cannot reasonably estimate the fair value of the liability.

#### Marketable Securities

The Company accounts for investments in debt and equity securities at fair value for trading or available for sale securities. The amortized cost method is used to account for investments in debt securities that the Company has the positive intent and ability to hold to maturity. Investments in debt and equity securities are included in "Marketable securities" in the current or noncurrent sections of the consolidated balance sheets, as appropriate. All such investments are considered to be available for sale. The Company regularly evaluates whether it intends to sell, or if it is more likely than not it will be forced to sell its available for sale securities to determine if an other-than-temporary impairment loss has occurred. In addition, the Company regularly evaluates available evidence to determine whether or not it will be able to recover the cost of these securities. If the Company is unable to recover the cost of the securities, an other-than-temporary impairment has occurred and credit losses are charged to income in the period incurred. Temporary declines in the fair value of investments are included in "Accumulated other comprehensive loss" in the consolidated balance sheets. For the purpose of computing realized gain or loss on the disposition of investments, the specific identification method is used. The Company's policy is to purchase investment grade securities.

#### Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, investments, derivative financial instruments, and trade receivables. The Company's policies limit the amount of credit exposure to any single counterparty for cash and investments. The Company uses major financial institutions with high credit ratings to engage in transactions involving investments and derivative financial instruments. The Company minimizes credit risk in its receivables from customers through its sale of products to a wide variety of customers and markets in locations throughout the world. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses and, historically, such losses have been within expectations.

#### Intangibles

Intangible assets of the Company include goodwill, patents and licenses, and other assets acquired by the Company that are separable and measurable apart from goodwill. Goodwill, representing the excess of cost over the fair value of net assets of businesses acquired, is tested at least annually for impairment. The Company completed its annual test for impairment of the goodwill balance as of June 30, 2014 and noted no impairment. Other intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives.

Revenue

The Company recognizes revenue only when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable, and collectability is reasonably assured. Revenue is recognized when title and risk of loss transfer to the customer for products and as work is performed for professional services. Amounts billed to a customer in a sale transaction related to shipping costs are classified as revenue. The Company reduces revenue for product returns, allowances, and price discounts at the time the sale is recognized. Amounts billed to customers in excess of amounts recognized as revenue are reported as deferred revenue in the consolidated balance sheets.

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### Cost of Sales

Cost of sales includes material, labor, and overhead costs associated with the manufacture and shipment of the Company's products, as well as research and development costs. Shipping costs are primarily comprised of payments to third party freight carriers. Research and development costs are primarily comprised of labor costs, outside services, and depreciation. Research and development costs were \$273.3, \$247.6, and \$281.2 for the years ended December 31, 2014, 2013, and 2012, respectively.

### Income Taxes

The income tax provision includes federal, state and foreign income taxes that are both currently payable and deferred. The Company records deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amount and tax base of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The Company records a valuation allowance on deferred tax assets when it is more likely than not that the expected future tax benefits will not be realized. In determining the appropriate valuation allowance, certain judgments are made relating to recoverability of deferred tax assets, use of tax loss carryforwards, level of expected future taxable income, and available tax planning strategies. These judgments are routinely reviewed by management. Further, the Company recognizes the financial statement effects of uncertain tax liabilities stemming from uncertain tax positions when it is more likely than not that those positions will not be sustained upon examination.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. Interest and penalties were not material to the Company's consolidated financial position or results of operations.

### Foreign Currency Translation

The value of the U.S. dollar fluctuates against foreign currencies. Because the Company conducts business in many countries, these fluctuations affect the Company's consolidated financial position and results of operations.

For foreign subsidiaries where the local currency is the functional currency, assets and liabilities, stated in their functional currency, are translated into U.S. dollars at exchange rates in effect at the end of the current period. The resulting gains or losses are reflected in "Accumulated other comprehensive loss" in the stockholders' equity section of the consolidated balance sheets. The revenues and expenses of these foreign subsidiaries, stated in their functional currency, are translated into U.S. dollars at the average exchange rates that prevailed during the period.

For foreign subsidiaries where the U.S. dollar is the functional currency, inventories, property, plant and equipment, and other non-monetary assets, together with their related elements of expense, are translated at historical exchange rates. All monetary assets and liabilities are remeasured at current exchange rates with gains and losses recognized in "Other nonoperating income, net" in the consolidated statements of income. All other revenues and expenses are translated at average exchange rates. Therefore, the reported U.S. dollar results included in the consolidated statements of income fluctuate from period to period, depending on the value of the U.S. dollar against foreign currencies.

### Derivative Financial Instruments

The Company uses derivative financial instruments to reduce the impact of changes in foreign exchange rates on its earnings, cash flows, and fair values of assets and liabilities. In addition, the Company may use derivative financial

instruments to reduce the impact of changes in natural gas and other commodity prices on its earnings and cash flows.

The Company designates derivatives as either (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedge), (2) a hedge of the exposure to variability in cash flows of a forecasted transaction (cash flow hedge), or (3) a hedge of the foreign currency exposure of a net investment in a foreign operation. Where an instrument is designated as a hedge, the Company formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes relating all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. If it is determined that a derivative is not highly effective as a hedge, or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting with respect to that derivative prospectively.

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The Company measures derivative financial instruments at fair value and classifies them as “Other current assets,” “Other noncurrent assets,” “Other current liabilities,” or “Other noncurrent liabilities” in the consolidated balance sheets. Unrealized gains and losses related to the Company’s derivatives designated as cash flow hedges are recorded in “Accumulated other comprehensive loss” in the consolidated balance sheets. These gains and losses are reclassified from “Accumulated other comprehensive loss” as the underlying hedged item affects earnings. Realized derivative gains and losses related to cash flow hedges, foreign exchange contracts and commodity contracts are recognized in the Company’s income statement in “Other nonoperating income, net” or “Cost of sales,” as appropriate. Both unrealized and realized gains and losses related to derivative instruments used to hedge the economic exposure to foreign currency fluctuations and not designated as hedging instruments are recognized in “Other nonoperating income, net.”

Cash flows from derivatives designated as hedges are classified in the same category of the consolidated statements of cash flows as the items being hedged. Cash flows from derivatives not designated as hedging instruments are classified according to the activity in which they relate.

#### Litigation

The Company is subject to legal proceedings and claims arising out of the normal course of business. The Company routinely assesses the likelihood of any adverse judgments or outcomes to these matters, as well as ranges of probable losses. A determination of the amount of the reserves required, if any, for these contingencies is made after analysis of each known issue and an analysis of historical claims experience for incurred but not reported matters. The Company expenses legal costs, including those related to loss contingencies, as incurred. The Company has an active risk management program consisting of numerous insurance policies secured from many carriers. These policies provide coverage that is utilized to mitigate the impact, if any, of certain of the legal proceedings. The required reserves may change in the future due to new developments in each matter.

#### Environmental Matters

The Company determines the costs of environmental remediation for its facilities, facilities formerly owned by the Company, and third party waste disposal facilities based on evaluations of current law and existing technologies. Inherent uncertainties exist in these evaluations primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and evolving technologies. The Company records a charge to earnings for environmental matters when it is probable that a liability has been incurred and the Company’s costs can be reasonably estimated. The liabilities recorded are adjusted periodically as remediation efforts progress, or as additional technical or legal information becomes available.

#### Warranties

In the normal course of business, to facilitate sales of its products, the Company issues product warranties, and it enters into contracts and purchase orders that often contain standard terms and conditions that typically include a warranty. The Company’s warranty activities do not have a material impact on the Company’s consolidated financial position or results of operations.

#### Guarantees

Guarantees arise in the normal course of business from relationships with customers, employees, and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others (via delivery of cash or other assets) if specified triggering events occur. Non-performance under a contract by the guaranteed party triggers the obligation of the Company. The Company’s potential obligation under its guarantees is not material to the

Company's consolidated financial position or results of operations.

New Accounting Standards

In February 2013, the FASB issued guidance to amend the requirements for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance was effective for annual periods beginning after December 15, 2013, with early adoption permitted. The adoption did not impact the Company's financial position or results of operations.

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In March 2013, the FASB issued guidance that resolves the diversity in practice about whether consolidation accounting guidance or foreign currency accounting guidance applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or a certain group of assets within a foreign entity. In addition, the guidance also resolves the diversity in practice for the treatment of business combinations achieved in stages. The guidance was effective for annual periods beginning after December 15, 2013, with early adoption permitted. The adoption did not impact the Company's financial position or results of operations.

In April 2013, the FASB issued guidance that requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent and disclose the entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. The guidance was effective for annual and interim periods beginning after December 15, 2013, with early adoption permitted. The adoption did not impact the Company's financial position or results of operations.

In December 2013, the FASB issued guidance to define Public Business Entities ("PBE") in the FASB Master Glossary. The definition of a PBE will be used by the FASB to determine the scope of new accounting and reporting guidance and to identify the types of companies that are excluded from the scope of the Private Company Decision-Making Framework. Under the new definition, the Company is a PBE. The definition of PBE did not impact the Company's financial statement disclosures, financial position, or results of operations.

In April 2014, the FASB issued guidance to update the definition of discontinued operations by limiting reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. This guidance is effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. The adoption is not expected to impact the Company's financial position and results of operations.

In May 2014, the FASB issued guidance which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016 and is to be applied using either a full retrospective approach or a modified retrospective approach. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its financial position, results of operations, and financial statement disclosures.

In August 2014, the FASB issued guidance that requires management of all entities to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. The guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The adoption is not expected to impact the Company's financial statement disclosures.

#### NOTE 3 – GAINS ON LONG-TERM SALES AGREEMENTS

In 2014, the Company recognized a gain associated with the termination of a long-term sales agreement with a customer. The long-term sales agreement required the customer to make initial non-refundable advanced cash payments, which were recorded as deferred revenue. During the term of the contract, the customer ceased taking its



contractually required minimum supply of product resulting in a termination of the contract and legal actions to recover damages associated with the customer's failure to perform. The termination and related actions resulted in recognition of \$32.7 of previously recorded deferred revenue. The Company has no remaining obligation to perform under the agreement. The pre-tax impact of the resolution was reflected in "Gains on long-term sales agreements" in the consolidated statements of income. After income taxes and amounts attributable to noncontrolling interests, net income attributable to the Company for the year ended December 31, 2014 increased by \$17.2.

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In 2013, the Company recognized a gain associated with the termination of a long-term sales agreement with a customer. The Company received a cash payment of \$183.2, of which, \$176.5 was recognized and reflected in “Gains on long-term sales agreements” in the consolidated statements of income. The remaining amount was applied to outstanding receivables or was deferred. The Company considered the settlement to be a triggering event for a held-and-used impairment test as production assets were dedicated solely to supplying this customer contract. As such, the Company evaluated the recoverability of the long-lived assets. Based on this evaluation, the Company determined that the long-lived assets with a carrying amount of \$122.2 were impaired, and as a result, were written down to their estimated fair value of \$8.3. Fair value was based on the liquidation value of these assets. As the liquidation value exceeded the fair value based on future cash flows, the assets were written down to the liquidation value. The impairment charge was reflected in “Asset charges and restructuring expenses” in the consolidated statements of income. As a result of the gain and impairment, net income attributable to the Company for the year ended December 31, 2013 increased by \$40.7, after income taxes.

Also during 2013, the Company recognized a gain associated with the termination of multiple long-term sales agreements with a customer. The long-term sales agreements required the customer to make initial non-refundable advanced cash payments, which were recorded as deferred revenue. During the term of the contract, the customer ceased taking its contractually required minimum supply of product resulting in a decision by the Company to terminate the contracts and initiate legal actions to recover damages associated with the customer’s failure to perform. The termination and related actions resulted in recognition of \$52.0 of previously recorded deferred revenue. The Company has no remaining obligation to perform under the agreements. The pre-tax impact of the resolution was reflected in “Gains on long-term sales agreements” in the consolidated statements of income. After income taxes and amounts attributable to noncontrolling interests, net income attributable to the Company for the year ended December 31, 2013 increased by \$23.1.

In 2012, the Company resolved a contract dispute related to certain long-term sales agreements. The resolution was mainly comprised of a cash payment of \$18.5 and recognition of previously recorded deferred revenue of \$24.7. The Company has no remaining obligation to perform under the agreements. The pre-tax impact of the resolution was reflected in “Gains on long-term sales agreements” in the consolidated statements of income. After income taxes and amounts attributable to noncontrolling interests, net income attributable to the Company for the year ended December 31, 2012 increased by \$19.7.

In 2011, the Company resolved a contract dispute related to certain long-term sales agreements. The resolution included a cash payment of \$195.2, which was received by the Company in January 2012.

#### NOTE 4 – POLYCRYSTALLINE SILICON MARKET CONDITIONS AND CHINA TRADE MATTERS

The Company is a provider of polycrystalline silicon and other silicon-based products used in the manufacturing of semiconductor devices and solar cells and modules. These products account for a significant portion of the Company’s operating results. Pricing for these products declined sharply during the fourth quarter of 2011. As a result, management made a decision to temporarily delay ongoing construction activities associated with the second phase of a polycrystalline silicon plant expansion.

In July 2012, the Chinese Ministry of Commerce (“MOFCOM”) initiated antidumping and countervailing duty investigations of imports of solar-grade polycrystalline silicon products from the U.S. and Korea based on a petition filed by Chinese solar-grade polycrystalline silicon producers. Solar-grade polycrystalline sales volumes declined and the production levels of certain of the Company’s existing operating assets were reduced. During the fourth quarter of 2012, management determined the additional planned capacity of the second phase plant expansion was no longer

economically viable due to the market conditions and made the decision to abandon the partially constructed assets. The construction-in-progress assets were written down to scrap values, resulting in a charge of \$283.2 on assets with a carrying value of \$312.4.

As a result of the ongoing market conditions and the trade matter, the planned first quarter 2013 startup of the first phase of a polycrystalline silicon plant expansion was delayed. In the third quarter of 2013, MOFCOM imposed provisional antidumping and countervailing duties, and the requirement for customers to pay provisional duties on imports of solar-grade polycrystalline silicon became effective. Accounting standards require that if an impairment indicator is present, the Company must assess whether the carrying amount of the asset group is recoverable by estimating the sum of future undiscounted cash flows expected to be generated by the asset. If the estimated undiscounted cash flows are less than the carrying amount of the asset group, an impairment charge must be recognized for the difference between the carrying value and the fair value of the asset. As a result of the notice of provisional duties received from MOFCOM during the third quarter of 2013, the Company assessed whether the carrying value of all polycrystalline silicon assets might be impaired. The Company's estimates of future undiscounted cash flows indicated the polycrystalline silicon asset group was recoverable.

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In January 2014, MOFCOM issued a final determination that China's solar-grade polycrystalline silicon industry suffered material damage because of dumping. The determination resulted in antidumping duties of 53.3% and countervailing duties of 2.1% on future imports from the Company into China. During the fourth quarter of 2014, due to sustained adverse market conditions created by industry oversupply, ongoing challenges presented by global trade disputes, and the cost of operating the facility, management concluded that future operation of the first phase of the polycrystalline silicon plant expansion would not be economically viable and decided to permanently abandon the assets. The decision was approved by the Company's Board of Directors on December 15, 2014. The decision to permanently abandon the assets resulted in a charge of \$1,481.0, reflected in "Asset charges and restructuring expenses" in the consolidated statements of income. The charge consisted of \$1,434.6 relating to the write-down to fair value on assets with a carrying value of \$1,489.4. The fair value was determined based on liquidation value of the assets. The charge also included other contract cancellation, employee separation, and related exit costs of \$46.4, of which a \$34.0 liability remained at December 31, 2014. As a result of the significant change in the use of this asset, the Company assessed whether the carrying value of all polycrystalline silicon assets might be impaired. The Company's estimates of future undiscounted cash flows indicated the polycrystalline silicon asset group was recoverable. After write-down for the abandonment, the total carrying value of polycrystalline silicon fixed assets was \$2.0 billion as of December 31, 2014.

#### NOTE 5 – RESTRUCTURING

In 2013, the Company initiated a plan of restructuring that included the involuntary termination of professional and production employees, primarily in domestic manufacturing locations where operations had declined. During the year ended December 31, 2013, the Company recorded \$9.0 for employee-related costs and recognized a charge of \$30.5 associated with the termination of a long-term supply contract. This restructuring liability was settled as of December 31, 2013.

In 2012, the Company initiated a plan of restructuring that included the involuntary termination of professional employees worldwide and capital asset disposals. As of December 31, 2012, the Company recorded \$67.5 for employee-related costs associated with ongoing benefit arrangements and \$297.5 for asset disposals, including charges for the polycrystalline silicon asset abandonments discussed in Note 4. During the year ended December 31, 2013, the Company recorded an additional \$11.2 for asset charges and decreased employee-related costs by \$1.2. This restructuring liability was settled as of December 31, 2014.

#### NOTE 6 – INVESTMENTS

Investments reflected in "Marketable securities" in the consolidated balance sheets as of December 31, 2014 and 2013 were \$86.1 and \$96.3, respectively. These investments have been classified as available for sale.

The cost, gross unrealized gains, gross unrealized losses, and fair value of the investments by classification were as follows:

|   | Level   | Cost    | December 31, 2014      |                           | Fair Value |
|---|---------|---------|------------------------|---------------------------|------------|
|   |         |         | Gross Unrealized Gains | Gross Unrealized (Losses) |            |
| Debt Securities - Auction rate preferred securities | Level 3 | \$ 76.0 | \$ -                   | \$ (3.1)                  | \$ 72.9    |

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|                             |         |         |        |          |         |
|-----------------------------|---------|---------|--------|----------|---------|
| Foreign Equity Securities   | Level 1 | 0.5     | 2.1    | -        | 2.6     |
| Preferred Equity Securities | Level 2 | -       | -      | -        | -       |
| Other                       | Level 1 | 10.6    | -      | -        | 10.6    |
| Total Marketable Securities |         | \$ 87.1 | \$ 2.1 | \$ (3.1) | \$ 86.1 |

|   |         | December 31, 2013 |                              |                                 |               |
|---|---------|-------------------|------------------------------|---------------------------------|---------------|
|   | Level   | Cost              | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>(Losses) | Fair<br>Value |
| Debt Securities - Auction rate preferred securities | Level 3 | \$ 76.0           | \$ -                         | \$ (7.0)                        | \$ 69.0       |
| Foreign Equity Securities                           | Level 1 | 1.0               | 2.1                          | -                               | 3.1           |
| Preferred Equity Securities                         | Level 2 | 0.9               | 13.3                         | -                               | 14.2          |
| Other   | Level 1 | 10.0              | -                            | -                               | 10.0          |
| Total Marketable Securities                         |         | \$ 87.9           | \$ 15.4                      | \$ (7.0)                        | \$ 96.3       |

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As of December 31, 2014, securities in an unrealized loss position for 12 months or more were valued at \$15.4, net of unrealized losses of \$1.2. As of December 31, 2013, the Company did not have any securities in an unrealized loss position for more than 12 months.

#### Level 3 Assets

The changes in fair value of Level 3 assets were as follows:

|   | 2014    | 2013    |
|---|---------|---------|
| Beginning balance as of January 1                       | \$ 69.0 | \$ 75.7 |
| Transfers out of Level 3                                | -       | -       |
| Change in unrealized losses in other comprehensive loss | 3.9     | (6.7)   |
| Realized gains/(losses) included in earnings            | -       | -       |
| Sales/redemptions of assets classified as Level 3       | -       | -       |
| Ending balance as of December 31                        | \$ 72.9 | \$ 69.0 |

In 2013, the Company reached a settlement relating to losses incurred by the Company associated with its auction rate securities portfolio and the failure of the auction market. The total settlement reached was a \$29.5 gain and was reflected in "Other nonoperating income, net" in the consolidated statements of income.

The Company held the following securities classified as Level 3 assets based upon valuation using significant unobservable inputs:

|                                   | Fair Value | Valuation Technique | December 31, 2014<br>Unobservable Input | Range       |
|-----------------------------------|------------|---------------------|---|-------------|
| Auction rate preferred securities | \$72.9     | Effective interest  | Market required effective interest rate | 4.0% - 5.0% |

#### Auction Rate Preferred Securities

As of December 31, 2014 and 2013, the Company held auction rate preferred securities valued at \$72.9 and \$69.0, respectively. The interest rates reset on these variable rate instruments quarterly through an auction process. Since the auctions have failed, default dividend allocation methods are in effect. While 84% of the securities were rated below investment grade as of December 31, 2014, all of the issuers of the underlying preferred equity securities have continued to remit dividends consistent with historical practices.

#### NOTE 7 – INVENTORIES

The components of inventories were as follows:

|                | December 31, 2014 | December 31, 2013 |
|----------------|-------------------|-------------------|
| Produced goods | \$ 777.8          | \$ 738.0          |

|                          |            |            |
|--------------------------|------------|------------|
| Purchased materials      | 181.5      | 134.1      |
| Maintenance and supplies | 124.5      | 131.7      |
| Total Inventory          | \$ 1,083.8 | \$ 1,003.8 |

Produced goods include both work-in-process and finished goods. Due to the nature of the Company's operations, it is not practical to classify inventory between work-in-process and finished goods as such classifications can be interchangeable for certain items. Purchased materials primarily consist of the Company's raw material inventories. Maintenance and supplies included in inventory primarily represent spare component parts that are used in the Company's manufacturing processes.

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## NOTE 8 – INCOME TAXES

The components of income before income taxes and noncontrolling interests were as follows:

|          | Years ended December 31, |          |          |
|----------|--------------------------|----------|----------|
|          | 2014                     | 2013     | 2012     |
| Domestic | \$ 358.5                 | \$ 276.5 | \$ 175.5 |
| Foreign  | 348.1                    | 391.0    | 172.7    |
| Total    | \$ 706.6                 | \$ 667.5 | \$ 348.2 |

The components of the income tax provision were as follows:

|          | Years Ended December 31, |          |          |          |            |          |           |          |          |
|----------|--------------------------|----------|----------|----------|------------|----------|-----------|----------|----------|
|          | 2014                     |          |          | 2013     |            |          | 2012      |          |          |
|          | Current                  | Deferred | Total    | Current  | Deferred   | Total    | Current   | Deferred | Total    |
| Domestic | \$ (30.3)                | \$ 33.0  | \$ 2.7   | \$ 213.1 | \$ (154.8) | \$ 58.3  | \$ (61.2) | \$ 104.2 | \$ 43.0  |
| Foreign  | 113.4                    | 15.9     | 129.3    | 114.6    | 60.9       | 175.5    | 115.1     | 4.8      | 119.9    |
| Total    | \$ 83.1                  | \$ 48.9  | \$ 132.0 | \$ 327.7 | \$ (93.9)  | \$ 233.8 | \$ 53.9   | \$ 109.0 | \$ 162.9 |

The tax effects of the principal temporary differences giving rise to deferred tax assets and liabilities were as follows:

|  | December 31, |           |
|--|--------------|-----------|
|  | 2014         | 2013      |
| <b>Deferred Tax Assets:</b>                          |              |           |
| Implant costs  | \$ 132.4     | \$ 592.4  |
| Postretirement benefit obligations                   | 513.1        | 382.2     |
| Tax loss carryforwards                               | 151.4        | 143.8     |
| Tax credit carryforwards                             | 427.5        | 159.2     |
| Accruals and other                                   | 135.8        | 147.4     |
| Inventories  | 18.9         | 3.7       |
| Long-term debt                                       | 45.5         | 44.3      |
| Deferred revenue                                     | 172.6        | 120.8     |
| Total deferred tax assets                            | \$1,597.2    | \$1,593.8 |
| <b>Deferred tax liabilities:</b>                     |              |           |
| Property, plant and equipment                        | (868.1)      | (981.7)   |
| Net deferred tax assets prior to valuation allowance | \$ 729.1     | \$ 612.1  |
| Less: Valuation allowance                            | (197.9)      | (169.7)   |
| Net Deferred Tax Assets                              | \$ 531.2     | \$ 442.4  |

The Company believes that it is more likely than not that the overall net deferred tax assets will be realized. However, valuation allowances of \$197.9 have been recorded as of December 31, 2014 where the Company believes it is not more likely than not that the deferred tax assets in certain jurisdictions will be realized. The criteria that management considered in making this determination were historical and projected operating results, the ability to utilize tax planning strategies, and the period of time over which the tax benefits can be utilized. Of the total valuation allowance amount, \$28.2 is attributable to realized and unrealized capital losses on marketable securities; \$96.1 from a state investment tax credit; \$18.4 primarily due to net operating losses in Brazil; and \$37.8 from state net operating



losses in the U.S.

As of December 31, 2013, the Company's "Implant liability" recorded in the consolidated balance sheets was \$1,616.4 with an associated "Implant costs" deferred tax asset of \$592.4. As of December 31, 2014, the Company revised its estimate of liability associated with the plan and reduced the "Implant liability" to \$363.6, which decreased the deferred tax asset to \$132.4. See Note 17 for further discussion of the revised liability estimate.

The Company has tax credit carryforwards of \$427.5 as of December 31, 2014 attributable to foreign tax credits in the U.S. of \$298.8, general business credits in the U.S. of \$32.6, and state investment tax credits of \$96.1. The foreign tax credits expire between 2019 and 2024; the general business credits expire between 2031 and 2034; and the state investment tax credit has an indefinite carryforward period.

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Tax effected operating loss carryforwards as of December 31, 2014 were \$151.4. Of the tax effected operating loss carryforwards, \$92.8 are subject to an indefinite carryforward period and were generated by the Company's subsidiaries in Brazil and the United Kingdom and \$49.6 are state net operating losses which are subject to various carryforward periods.

Cash paid for income taxes, net of refunds received, was \$109.6, \$155.8, and \$160.8 for the years ended December 31, 2014, 2013, and 2012, respectively.

The effective rate of the income tax provision may differ from the United States federal statutory tax rate. A reconciliation of the tax rate was as follows:

|   | Years Ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2014                     | 2013     | 2012     |
| Income Tax Provision at Statutory Rate              | \$ 247.3                 | \$ 233.6 | \$ 121.9 |
| Increase/(Decrease) in Income Tax Provision due to: |                          |          |          |
| Foreign provisions and related items                | (16.8)                   | 6.7      | (25.0)   |
| Domestic manufacturing deduction                    | 8.5                      | (20.7)   | 4.9      |
| Valuation allowances                                | (4.3)                    | 11.7     | (1.4)    |
| Change in foreign tax rates                         | -                        | 13.1     | 10.2     |
| Tax reserves  | -                        | (8.1)    | 8.6      |
| Noncontrolling interest losses                      | -                        | 4.5      | 46.0     |
| U.S. tax effect of foreign earnings and dividends   | (93.6)                   | 2.9      | 4.0      |
| Other, net  | (9.1)                    | (9.9)    | (6.3)    |
| Total Income Tax Provision at Effective Rate        | \$ 132.0                 | \$ 233.8 | \$ 162.9 |
| Effective Rate                                      | 18.7%                    | 35.0%    | 46.8%    |

During 2014, the Company paid a dividend from a subsidiary in Luxembourg to the U.S. The Company recorded a reduction of \$99.2 to the income tax provision for the year ended December 31, 2014. This repatriation of earnings does not change the Company's ability and intent to continue to permanently reinvest undistributed earnings of foreign subsidiaries.

During 2012, management determined a polycrystalline silicon plant expansion would no longer be economically viable due to challenging market conditions and abandoned this activity. The impact of the abandonment write-down was \$36.3, included in "Noncontrolling interest losses" within the table above. The impact of the write-down increased the effective tax rate as the Company does not receive the full tax benefit from the portion of tax losses attributable to the noncontrolling shareholders. As the Company had acquired the remaining interest in the majority owned subsidiary since 2012, the 2014 abandonment of a polycrystalline silicon plant expansion did not impact noncontrolling interest losses.

As of December 31, 2014, income and remittance taxes have not been recorded on \$814.0 of undistributed earnings of foreign subsidiaries, as the Company intends to reinvest those earnings indefinitely. If the Company did not intend to reinvest those earnings indefinitely, the Company would have a deferred tax liability of \$89.5 related to the outside basis difference of its foreign subsidiaries.

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The Company files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, local or non-U.S. income tax examination by tax authorities for years before 2006.

The following table indicates, for each significant jurisdiction, the earliest tax year that remains subject to examination:

|                | Year |               | Year |
|----------------|------|---------------|------|
| United Kingdom | 2013 | Korea         | 2013 |
| Belgium        | 2012 | Brazil        | 2009 |
| Japan          | 2010 | China         | 2009 |
| Germany        | 2011 | United States | 2006 |

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During 2010, the Company received proposed adjustments from the IRS related to the Company's consolidated federal income tax returns for 2006, 2007, 2008, and 2009. The Company filed protests and appeals in response to the proposed adjustments for the years 2006 through 2009. The Company also made voluntary protective bond deposits of \$112.2 in 2010 and subsequently redeemed \$112.2 of the deposits in 2012 due to management's belief that the IRS assertions would not be sustained. If the IRS prevails on the proposed adjustments for the remaining years under audit, the resulting tax deficiency will be \$115.3. However, due to the temporary nature of the proposed adjustments, management believes that the resolution of the remaining issues will not have a material impact on the Company's consolidated financial position or results of operations.

During 2014, the Company received proposed adjustments from the IRS related to the Company's consolidated federal income tax returns for 2011 and 2012. Management plans to contest the proposed adjustments and believes the adjustments will not be sustained. If the IRS prevails on the proposed adjustments, the estimated tax deficiency is approximately \$709.6 for 2011 and \$326.2 for 2012. Future proposed adjustments related to the same matter are possible. However, due to the temporary nature of the proposed adjustments, management believes that resolution of the claims will not have a material impact on the Company's consolidated results of operations.

As of December 31, 2014, no jurisdiction has proposed any other significant adjustments to the Company's tax returns that management believes would be sustained and would materially affect the Company's financial position. In addition, the Company does not anticipate that any material adjustments will result from settlements, closing of tax examinations, or expiration of applicable statutes of limitation in various jurisdictions within the next 12 months.

A reconciliation of the beginning and ending amount of unrecognized gross tax benefits, excluding any indirect tax benefit of these unrecognized gross tax benefits in another jurisdiction, interest, and penalties, was as follows:

|  | Years Ended December 31, |         |         |
|--|--------------------------|---------|---------|
|  | 2014                     | 2013    | 2012    |
| Unrecognized tax benefits as of January 1                    | \$ 89.5                  | \$ 16.9 | \$ 3.7  |
| Additions based on tax positions related to the current year | 11.2                     | 70.6    | -       |
| Additions for tax positions of prior years                   | -                        | 33.7    | 27.8    |
| Reductions to tax positions related to the current year      | 16.7                     |         |         |
| Reductions for tax positions of prior years                  | (2.1)                    | (5.6)   | (0.3)   |
| Settlements  | (12.9)                   | (26.1)  | (14.3)  |
| Balance as of December 31                                    | \$ 102.4                 | \$ 89.5 | \$ 16.9 |

The Company had approximately \$102.4 of total gross unrecognized tax benefits as of December 31, 2014. Of this total, \$21.8 (including interest, penalties, and net of the federal benefit on state items) represents the amounts of unrecognized tax benefits that, if recognized, would impact the effective income tax rate in any future period.

#### NOTE 9 – DERIVATIVES

In 2013, the Company recognized a favorable long-term supply contract at fair value. The contract provides for the supply of electricity, which is expected to be used in the normal course of business. The contract requires the purchase of minimum volumes and any unused volumes are liquidated on a net basis when minimum volumes are not taken. The contract is a derivative, but was previously unrecognized under the normal purchase normal sale scope exception within the derivative accounting guidance. Due to operational matters and uncertainty regarding the level of future physical deliveries and net settlements under the contract, the Company determined that the normal purchase

normal sale scope exception could no longer be applied.

Under a discounted cash flow method, the fair value of the supply contract was determined by using market prices from the Brazilian Intercontinental Exchange (“BRIX”) for the years 2014 through 2017 and extrapolating them over the remaining periods where market prices are not observable. Since the BRIX curve only provides forward pricing until May 2017, the inputs used in the valuation of the contract were considered Level 3. Electricity prices used in the valuation ranged from \$68 to \$136 U.S. dollars per megawatt hour for the years 2014 through 2017. The Company used the observable price from 2017 of \$68 U.S. dollars per megawatt hour as the basis for the price in the final year, 2018. Changes in the fair value of the contract are reflected in “Other nonoperating income, net” in the consolidated statements of income. During the years ended December 31, 2014 and 2013, the Company recognized \$47.6 and \$63.3 of income, respectively. The derivative asset was reflected in “Other noncurrent assets” in the consolidated balance sheets as of December 31, 2014 and December 31, 2013, at \$110.9 and \$63.3, respectively. Cash flows related to this derivative are reflected in “Cash flows from operating activities” in the consolidated statements of cash flows.

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Other derivative balances and hedging activities were not material to the financial position or results of operations of the Company.

#### NOTE 10 – VARIABLE INTEREST ENTITIES

The Company holds minority voting interests in certain joint ventures that produce key raw material inputs for the Company. These joint ventures operate under supply agreements that sell inventory to the equity owners using pricing mechanisms that guarantee a return, therefore shielding the joint ventures from the right or ability to absorb expected gains or losses. As a result of the pricing mechanisms of these agreements, these entities are determined to be variable interest entities. As the Company does not hold the power to direct the activities that most significantly impact the economic performance of these entities, it is not the primary beneficiary and therefore does not consolidate the results of these entities.

The Company accounts for its investment in these entities under the equity method of accounting. The Company's maximum exposure to loss as a result of its involvement with these variable interest entities is determined to be the carrying value of the investment in these entities plus the maximum amount of potential future payments under the Company's guarantees of nonconsolidated subsidiaries' debt. As of December 31, 2014, the maximum exposure to loss was \$155.8.

#### NOTE 11 – PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment were as follows:

|                                     | Estimated Useful<br>Life (Years) | December 31, |             |
|-------------------------------------|----------------------------------|--------------|-------------|
|                                     |                                  | 2014         | 2013        |
| Land                                | -                                | \$ 138.8     | \$ 204.3    |
| Land improvements                   | 11-20                            | 355.3        | 545.4       |
| Buildings                           | 18-33                            | 2,248.4      | 2,918.7     |
| Machinery and equipment             | 3-25                             | 7,774.8      | 8,735.9     |
| Construction-in-progress            | -                                | 165.8        | 134.1       |
| Total property, plant and equipment |                                  | \$ 10,683.1  | \$ 12,538.4 |
| Accumulated depreciation            |                                  | (5,276.3)    | (5,307.3)   |
| Net property, plant and equipment   |                                  | \$ 5,406.8   | \$ 7,231.1  |

The Company recorded depreciation expense of \$486.0, \$484.0, and \$391.5 for the years ended December 31, 2014, 2013, and 2012, respectively.

The amount of interest capitalized as a component of the cost of capital assets constructed for the years ended December 31, 2014, 2013, and 2012 was \$5.1, \$16.5, and \$94.5, respectively.

#### NOTE 12 – GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 31, 2014 and 2013, the Company had gross goodwill of \$61.9 and \$70.3, respectively. Changes in the carrying amount of goodwill related to currency translation. The gross and net amounts of intangible assets, excluding goodwill, were as follows:

|                      |                 | December 31, 2014 |                 |
|----------------------|-----------------|-------------------|-----------------|
|                      | Gross           | Accumulated       | Net             |
|                      | Carrying Amount | Amortization      | Carrying Amount |
| Patents and licenses | \$ 5.6          | \$ (4.2)          | \$ 1.4          |
| Completed technology | 13.3            | (9.8)             | 3.5             |
| Electricity contract | 35.3            | (15.8)            | 19.5            |
| Land use rights      | 52.4            | (7.5)             | 44.9            |
| Other                | 22.7            | (21.1)            | 1.6             |
| Total                | \$ 129.3        | \$ (58.4)         | \$ 70.9         |

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|                      | Gross           | December 31, 2013           |                        |
|----------------------|-----------------|-----------------------------|------------------------|
|                      | Carrying Amount | Accumulated<br>Amortization | Net<br>Carrying Amount |
| Patents and licenses | \$ 6.5          | \$ (0.2)                    | \$ 6.3                 |
| Completed technology | 15.2            | (14.2)                      | 1.0                    |
| Electricity contract | 35.3            | (13.2)                      | 22.1                   |
| Land use rights      | 52.6            | (6.5)                       | 46.1                   |
| Other                | 25.9            | (24.3)                      | 1.6                    |
| Total                | \$ 135.5        | \$ (58.4)                   | \$ 77.1                |

The Company recorded amortization expense related to these intangible assets of \$5.3, \$6.1, and \$7.1 for the years ended December 31, 2014, 2013, and 2012, respectively. The estimated aggregate amortization expense to be recorded in each of the next five years is as follows: 2015 - \$5.2, 2016 - \$5.2, 2017 - \$5.2, 2018 - \$5.2, and 2019 - \$4.0.

#### NOTE 13 – NOTES PAYABLE AND CREDIT FACILITIES

##### Short-Term Borrowings

Amounts reflected in “Short-term borrowings and current maturities of long-term debt” in the consolidated balance sheets contain current maturities of the long-term debt instruments disclosed below when repayment is due within the next 12 months. Such amounts were \$7.0 and \$5.5 as of December 31, 2014 and 2013, respectively.

Additionally, the Company had outstanding short-term debt of \$73.8 in China as of December 31, 2013. The borrowings in China were primarily denominated in Renminbi with an interest rate generally set by the People’s Bank of China at the time of borrowing. Since the interest rates for the borrowings in China were reset regularly based on market conditions, management believed the carrying value of the debt approximated its fair value for these borrowings and classified them as a Level 2 measurement due to use of valuation inputs based on similar liabilities in the market. The borrowings in China were fully repaid during 2014.

##### Credit Facilities

In March 2011, the Company entered into a five-year \$1.0 billion revolving credit facility agreement with various U.S. and foreign banks. In November 2013, the facility was extended through 2018. The facility allows for borrowing in multiple currencies for working capital needs and general corporate purposes of the Company. Borrowings bear interest at a LIBOR-plus rate or an alternate rate based on LIBOR, the Prime Rate or the Federal Funds Effective rate plus various spreads based on the terms of the agreement. As of December 31, 2014, the Company had no outstanding balance on the facility.

In addition, the Company had unused and committed credit facilities with various U.S. and foreign banks of \$60.2 and \$67.9 as of December 31, 2014 and 2013, respectively. These credit facilities may require the payment of commitment fees. The Company intends to renew these facilities at their respective maturities. These facilities are available to support working capital requirements.

##### Long-Term Debt

Long-term debt consisted of the following:



|  | Years Ended December 31, |          |                 |          |
|--|--------------------------|----------|-----------------|----------|
|  | 2014                     | Rates    | 2013            | Rates    |
| <b>Long-term debt</b>                          |                          |          |                 |          |
| Variable rate notes due 2016                   | \$ 150.0                 | 1.3%     | \$ 150.0        | 1.3%     |
| Fixed rate notes due 2018                      | 350.0                    | 4.1%     | 350.0           | 4.1%     |
| Variable rate bonds due 2019                   | 2.0                      | 0.2%     | 2.5             | 0.2%     |
| Fixed rate notes due 2021                      | 350.0                    | 4.8%     | 350.0           | 4.8%     |
| Other obligations and capital leases           | 100.4                    | 2.6-9.0% | 90.1            | 3.5-9.0% |
| <b>Total long-term debt</b>                    | <b>\$ 952.4</b>          |          | <b>\$ 942.6</b> |          |
| Less current maturities of long-term debt      | 7.0                      |          | 5.5             |          |
| <b>Total long-term debt due after one year</b> | <b>\$ 945.4</b>          |          | <b>\$ 937.1</b> |          |

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In February 2013, a wholly owned subsidiary of the Company entered into a \$150.0 unsecured term loan, due in February 2016, with a U.S. branch of a Japanese bank. Subsequent to December 31, 2014, the Company committed to prepay \$50.0 of the loan in February 2015. Since the interest rate for the borrowing under the loan agreement is reset regularly based on market conditions, management believes the carrying value of the debt approximates the fair value of the borrowing and is classified as a Level 2 measurement due to use of valuation inputs based on similar liabilities in the market.

In March 2011, the Company issued senior unsecured fixed rate notes at par with an aggregate principal amount of \$700.0, including \$350.0 of 4.1% Series A Notes due March 2018 and \$350.0 of 4.8% Series B notes due March 2021. Valuation of the senior notes is conducted on a quarterly basis using the benchmark risk-free interest rate with a credit spread based on comparable companies with similar credit risk profiles and considering business-specific risks. Because the fixed rate notes were valued using inputs based on similar liabilities observed in the market, the Company's fixed rate notes were classified as a Level 2 measurement. As of December 31, 2014, the fair values of Series A Notes and Series B Notes were \$361.0 and \$380.1, respectively.

In April 2009, a majority owned subsidiary of the Company entered into an unsecured five-year term loan facility with a syndicate of commercial banks in China. The amount of the facility was 4.2 billion Renminbi (\$688.9 U.S. dollars). The facility permitted borrowing in U.S. dollars and Renminbi with required repayments commencing two years after the drawdown date. Repayments of \$198.1 and \$394.7 were made in 2013 and 2012, respectively. The full amount was repaid as of December 31, 2013. No further borrowings are available under this facility.

The Company and its subsidiaries are in compliance with its debt covenants, including leverage ratios and interest coverage ratios.

Annual aggregate maturities of the long-term debt of the Company are: 2015 - \$7.0, 2016 - \$156.2, 2017 - \$20.0, 2018 - \$355.6, and \$413.6 for 2019 and beyond.

Cash paid for interest during the year ended December 31, 2014, 2013, and 2012 was \$50.1, \$57.8, and \$95.4, respectively.

#### Sales of Receivables

The Company maintains an accounts receivable facility with a bank in Japan which expires in March 2015. The discount rate under this facility is the equivalent of TIBOR plus 0.25%. The Company sold receivables in the amount of \$77.2 and \$244.7 to this bank in exchange for cash proceeds of \$77.2 and \$244.6 during the years ended December 31, 2014 and 2013, respectively. Under the facility, the Company continues to collect the receivables from the customer but retains no interest in the receivables. The facility agreement does not permit the Company to transfer the receivables to any other institution and the Company is not permitted to repurchase the transferred receivables. The transfer of receivables provides additional liquidity to the Company. The counterparty for the receivables facility is a financial institution that specializes in receivables securitization transactions and is financed through the issuance of commercial paper.

Additionally, the Company has access to a short term borrowing facility securitized by receivables in the U.S. which expires in October 2015. The interest rate under this facility is based on LIBOR. As of December 31, 2014 and 2013, there were no outstanding amounts under this facility. The facility agreement does not permit the Company to transfer the receivables to any other institution and the Company is not permitted to repurchase the transferred receivables.

#### Letters of Credit

The Company had outstanding letters of credit of \$37.2 and \$52.8 as of December 31, 2014 and 2013, respectively.

NOTE 14 – DEFERRED REVENUE

The Company has historically entered into long-term product sales agreements with certain customers. Under certain agreements, customers are obligated to purchase minimum quantities of product and make specified payments. Most of these product sales agreements extend over various periods and, prior to 2012, the revenue associated with the agreements had been recognized using the average sales price over the life of the agreements. Under the average price methodology, differences between amounts invoiced to customers under the agreements and amounts recognized using the average price methodology were reported as deferred revenue in the consolidated balance sheets. After a series of amendments to the agreements in 2012, the Company concluded that future sales prices were no longer fixed and determinable and discontinued the use of the average price methodology. For the year ended December 31, 2012 and periods thereafter, the revenue associated with these product sales agreements is recognized using invoice-based pricing with a ratable recognition of existing deferred revenue amounts.

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Under certain agreements, customers were required to make initial non-refundable advanced cash payments. During the years ended December 31, 2014 and 2013, the Company received advanced payments of \$65.8 and \$111.2, respectively. The Company does not expect to receive any advanced payments in the next twelve months. Advanced cash payments received are recorded as deferred revenue and are typically applied ratably on a per kilogram basis as products are shipped over the life of the agreements. Modification to terms of the agreements may alter the timing of future advanced payments receipts or their application to future purchases. In the event that certain product delivery timelines are not met, subject to specific conditions outlined in the agreements, customers may be entitled to damages up to the amount of the advanced cash payments. The advanced payments received are reflected in “Cash flows from operating activities” in the consolidated statements of cash flows.

Total deferred revenue reflected in “Current deferred revenue” and “Deferred revenue” in the consolidated balance sheets as of December 31, 2014 and 2013, was \$3,202.3 and \$3,442.6, respectively. The changes in deferred revenue were as follows:

|                                   | 2014       | 2013       | 2012       |
|-----------------------------------|------------|------------|------------|
| Beginning balance as of January 1 | \$ 3,442.6 | \$ 3,572.3 | \$ 3,632.7 |
| Average price revenue generated   | -          | -          | 1.9        |
| Average price revenue recognized  | (19.4)     | (15.8)     | (26.1)     |
| Advanced payments received        | 65.8       | 111.2      | 95.3       |
| Advanced payments applied         | (246.6)    | (175.4)    | (88.7)     |
| Contract resolution / other       | (40.1)     | (49.7)     | (42.8)     |
| Ending balance as of December 31  | \$ 3,202.3 | \$ 3,442.6 | \$ 3,572.3 |

Current deferred revenue of \$319.6 and \$305.2 was recorded in the consolidated balance sheets as of December 31, 2014 and 2013, respectively. The current portion was determined based on the Company’s estimate of advanced payments to be applied to customer purchases in the next 12 months.

## NOTE 15 – PENSION AND OTHER POSTRETIREMENT BENEFITS

### Defined Benefit Pension Plans

The Company maintains defined benefit employee retirement plans covering most domestic and certain non-U.S. employees. The components of net periodic benefit cost for the Company’s U.S. and non-U.S. plans were as follows:

| Years Ended<br>December 31,                    | U.S. Plans |         |         | Non-U.S. Plans |         |         | Total   |         |         |
|--|------------|---------|---------|----------------|---------|---------|---------|---------|---------|
|  | 2014       | 2013    | 2012    | 2014           | 2013    | 2012    | 2014    | 2013    | 2012    |
| Net Periodic Benefit Cost                      |            |         |         |                |         |         |         |         |         |
| Service cost                                   | \$ 49.9    | \$ 61.6 | \$ 63.3 | \$ 13.2        | \$ 26.0 | \$ 26.1 | \$ 63.1 | \$ 87.6 | \$ 89.4 |
| Interest cost on projected benefit obligations | 90.3       | 83.1    | 85.1    | 33.7           | 30.5    | 33.5    | 124.0   | 113.6   | 118.6   |
| Expected return on plan assets                 | (74.8)     | (71.6)  | (74.5)  | (34.8)         | (30.6)  | (30.8)  | (109.6) | (102.2) | (105.3) |
|  | 2.4        | 2.4     | 2.7     | 1.0            | 1.2     | 1.4     | 3.4     | 3.6     | 4.1     |

|   |         |         |         |         |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Amortization of net prior service costs |         |         |         |         |         |         |         |         |         |
| Amortization of net losses              | 39.4    | 59.1    | 65.9    | 4.2     | 11.9    | 12.2    | 43.6    | 71.0    | 78.1    |
| Other adjustments                       | -       | -       | -       | -       | 2.6     | -       | -       | 2.6     | -       |
| Total                                   | \$107.2 | \$134.6 | \$142.5 | \$ 17.3 | \$ 41.6 | \$ 42.4 | \$124.5 | \$176.2 | \$184.9 |

Other changes in plan assets and benefit obligations that were recognized in or reclassified from other comprehensive income as of December 31 were as follows:

|  | U.S. Plans |          | Non-U.S. Plans |           | Total    |            |
|--|------------|----------|----------------|-----------|----------|------------|
|  | 2014       | 2013     | 2014           | 2013      | 2014     | 2013       |
| Amortization of net prior service costs              | \$ (2.4)   | \$ (2.4) | \$ (0.6)       | \$ (0.8)  | \$ (3.0) | \$ (3.2)   |
| Amortization of net losses or settlement recognition | (39.4)     | (59.1)   | (4.0)          | (12.1)    | (43.4)   | (71.2)     |
| Net loss (gain) arising during the year              | 377.9      | (194.7)  | 78.9           | (48.8)    | 456.8    | (243.5)    |
|  |            | \$       |                |           |          |            |
| Total  | \$ 336.1   | (256.2)  | \$ 74.3        | \$ (61.7) | \$ 410.4 | \$ (317.9) |

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The Company's defined benefit employee retirement plans have a measurement date of December 31 of the applicable year. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for defined benefit plans with accumulated benefit obligations in excess of plan assets as of December 31 were as follows:

|                                | U.S. Plans |         | Non-U.S. Plans |          | Total   |         |
|--------------------------------|------------|---------|----------------|----------|---------|---------|
|                                | 2014       | 2013    | 2014           | 2013     | 2014    | 2013    |
|                                | \$         | \$      |                |          | \$      | \$      |
| Projected benefit obligation   | 2,458.4    | 1,948.4 | \$ 826.4       | \$ 742.0 | 3,284.8 | 2,690.4 |
| Accumulated benefit obligation | 2,080.1    | 1,663.8 | 808.0          | 726.2    | 2,888.1 | 2,390.0 |
| Fair value of plan assets      | 1,483.9    | 1,330.5 | 608.6          | 566.0    | 2,092.5 | 1,896.5 |

The reconciliation of beginning and ending balances of the projected benefit obligation, beginning and ending balances of the fair value of plan assets, and the funded status of the plans as of December 31 were as follows:

|  | U.S. Plans        |                   | Non-U.S. Plans  |                 | Total             |                   |
|--|-------------------|-------------------|-----------------|-----------------|-------------------|-------------------|
|  | 2014              | 2013              | 2014            | 2013            | 2014              | 2013              |
| <b>Change in benefit obligation</b>              |                   |                   |                 |                 |                   |                   |
| Projected benefit obligation, beginning of year  | \$ 1,948.3        | \$ 2,136.3        | \$ 867.9        | \$ 833.7        | \$ 2,816.2        | \$ 2,970.0        |
| Service cost                                     | 49.9              | 61.6              | 13.2            | 26.0            | 63.1              | 87.6              |
| Interest cost                                    | 90.3              | 83.1              | 33.7            | 30.5            | 124.0             | 113.6             |
| Actuarial (gains) losses                         | 482.0             | (245.8)           | 141.4           | 19.6            | 623.4             | (226.2)           |
| Foreign currency exchange rate changes           | -                 | -                 | (75.9)          | 7.3             | (75.9)            | 7.3               |
| Benefits paid and settlements                    | (112.1)           | (86.9)            | (29.0)          | (28.5)          | (141.1)           | (115.4)           |
| Curtailments and Other                           | -                 | -                 | -               | (20.7)          | -                 | (20.7)            |
| <b>Projected benefit obligation, end of year</b> | <b>\$ 2,458.4</b> | <b>\$ 1,948.3</b> | <b>\$ 951.3</b> | <b>\$ 867.9</b> | <b>\$ 3,409.7</b> | <b>\$ 2,816.2</b> |
| <b>Fair value of plan assets</b>                 |                   |                   |                 |                 |                   |                   |
| Fair value of plan assets, beginning of year     | \$ 1,330.5        | \$ 1,310.9        | \$ 661.1        | \$ 579.3        | \$ 1,991.6        | \$ 1,890.2        |
| Actual return on plan assets                     | 179.0             | 20.8              | 97.2            | 62.3            | 276.2             | 83.1              |
| Foreign currency exchange rate changes           | -                 | -                 | (50.0)          | 15.9            | (50.0)            | 15.9              |
| Employer contributions                           | 86.5              | 85.7              | 18.4            | 32.1            | 104.9             | 117.8             |
| Benefits paid and settlements                    | (112.1)           | (86.9)            | (29.0)          | (28.5)          | (141.1)           | (115.4)           |

|  |            |            |            |            |             |            |
|--|------------|------------|------------|------------|-------------|------------|
| Fair value of plan assets, end of year | \$ 1,483.9 | \$ 1,330.5 | \$ 697.7   | \$ 661.1   | \$ 2,181.6  | \$ 1,991.6 |
| Funded status of plans                 | \$ (974.5) | \$ (617.8) | \$ (253.6) | \$ (206.8) | \$(1,228.1) | \$ (824.6) |
| Accumulated benefit obligation         | 2,080.1    | 1,663.8    | 875.8      | 802.7      | 2,955.9     | 2,466.5    |

The assets by category and fair value level of the U.S and non-U.S. defined benefit employee retirement plans were as follows:

|   | December 31, 2014 |            |         | Total      |
|---|-------------------|------------|---------|------------|
|   | Level 1           | Level 2    | Level 3 |            |
| Cash and cash equivalents                             | \$ 5.6            | \$ -       | \$ -    | \$ 5.6     |
| Equity securities                                     | 194.5             | 3.6        | -       | 198.1      |
| Corporate debt securities                             | -                 | 396.4      | -       | 396.4      |
| U.S. government debt securities                       | -                 | 258.6      | -       | 258.6      |
| U.S. government guaranteed mortgage backed securities | -                 | 24.9       | -       | 24.9       |
| Other governmental debt securities                    | 1.2               | 75.2       | -       | 76.4       |
| Investment funds                                      | 45.1              | 1,170.3    | 0.4     | 1,215.8    |
| Other   | -                 | 5.8        | -       | 5.8        |
| Total   | \$ 246.4          | \$ 1,934.8 | \$ 0.4  | \$ 2,181.6 |

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|   | December 31, 2013 |                   |               | Total             |
|---|-------------------|-------------------|---------------|-------------------|
|   | Level 1           | Level 2           | Level 3       |                   |
| Cash and cash equivalents                             | \$ 4.9            | \$ -              | \$ -          | \$ 4.9            |
| Equity securities                                     | 192.2             | 3.0               | -             | 195.2             |
| Corporate debt securities                             | -                 | 354.9             | -             | 354.9             |
| U.S. government debt securities                       | -                 | 200.0             | -             | 200.0             |
| U.S. government guaranteed mortgage backed securities | -                 | 18.5              | -             | 18.5              |
| Other governmental debt securities                    | 1.0               | 66.2              | -             | 67.2              |
| Investment funds                                      | 70.8              | 1,073.2           | 0.4           | 1,144.4           |
| Other   | -                 | 6.5               | -             | 6.5               |
| <b>Total</b>  | <b>\$ 268.9</b>   | <b>\$ 1,722.3</b> | <b>\$ 0.4</b> | <b>\$ 1,991.6</b> |

The changes in fair value of Level 3 assets for the year ended December 31, 2014 were as follows:

|   |        |
|---|--------|
| Beginning balance as of January 1, 2014 | \$ 0.4 |
| Actual return on assets                 | -      |
| Purchases                               | -      |
| Sales                                   | -      |
| Ending balance as of December 31, 2014  | \$ 0.4 |

Level 1 assets were valued based on quoted prices in active markets. Level 2 assets were primarily comprised of assets held in investment funds. The value of these funds was determined based on quoted prices in active markets for assets that are identical to the underlying assets held by the funds.

Level 3 assets were investments in a long-term property lease fund. Due to the absence of observable prices in an active market for the same or similar securities, the fair value of the securities was based on the last available market price for the underlying assets.

Amounts recorded in the consolidated balance sheets as of December 31 were as follows:

|                                     | U.S. Plans        |                   | Non-U.S. Plans    |                   | Total               |                   |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
|                                     | 2014              | 2013              | 2014              | 2013              | 2014                | 2013              |
| Current benefit liabilities         | \$ (6.1)          | \$ (5.8)          | \$ (4.2)          | \$ (3.4)          | \$ (10.3)           | \$ (9.2)          |
| Noncurrent benefit liabilities      | (968.4)           | (612.0)           | (249.4)           | (203.4)           | (1,217.8)           | (815.4)           |
| <b>Total recognized liabilities</b> | <b>\$ (974.5)</b> | <b>\$ (617.8)</b> | <b>\$ (253.6)</b> | <b>\$ (206.8)</b> | <b>\$ (1,228.1)</b> | <b>\$ (824.6)</b> |

Amounts recognized in accumulated other comprehensive loss (pre-tax)

|                                      |            |          |          |          |            |          |
|--------------------------------------|------------|----------|----------|----------|------------|----------|
| Prior service cost                   | \$ 8.1     | \$ 10.5  | \$ 4.4   | \$ 6.0   | \$ 12.5    | \$ 16.5  |
| Net loss                             | 1,063.2    | 724.8    | 214.6    | 157.1    | 1,277.8    | 881.9    |
| Accumulated other comprehensive loss | \$ 1,071.3 | \$ 735.3 | \$ 219.0 | \$ 163.1 | \$ 1,290.3 | \$ 898.4 |



The Company expects to recognize \$77.3 of net loss and \$3.3 of net prior service cost as a component of net periodic pension cost in 2015 for its defined benefit pension plans.

The expected return on plan assets is a long-term assumption based on projected returns for assets and the approved asset allocations of the plan. For the purpose of pension expense recognition, the Company uses a market-related value of assets that amortizes the difference between the expected return and the actual return on plan assets over a three-year period. The Company had approximately \$52.5 of net unrecognized asset gains associated with its U.S. pension plans as of December 31, 2014 that will be recognized in the calculation of the market-related value of assets and subject to amortization in future periods.

For the U.S. defined benefit plan, as of December 31, 2014, the fair value of plan assets included 37% of equity securities and 63% of debt securities. The plan targets an asset allocation of 40% equity securities and 60% debt securities. The plan's expected long-term rate of return is determined by the asset allocation and expected future rates of return on equity and fixed income securities.

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Given the relatively long horizon of the Company's aggregate obligation, its investment strategy is to improve and maintain the funded status of its U.S. and non-U.S. plans over time without exposure to excessive asset value volatility. The Company manages this risk primarily by maintaining actual asset allocations between equity and fixed income securities for the plans within a specified range of its target asset allocation. In addition, the Company ensures that diversification across various investment subcategories within each plan are maintained within specified ranges.

All of the Company's pension assets are managed by outside investment managers and held in trust by third-party custodians. The selection and oversight of these outside service providers is the responsibility of investment committees. The selection of specific securities is at the discretion of the investment manager and is subject to the provisions set forth by written investment management agreements and related policy guidelines regarding permissible investments and risk control practices.

The Company's funding policy is to contribute to defined benefit plans when pension laws and economics either require or encourage funding. Contributions of approximately \$136.2 are planned for the U.S. plans in 2015. Contributions of approximately \$15.5 are planned for non-U.S. plans in 2015.

The weighted-average assumptions used to determine the benefit obligation and to determine the net benefit costs are shown in the following table. Discount rates and rates of increase in future compensation are weighted based upon the projected benefit obligations of the respective plans. The expected long-term rate of return on plan assets is weighted based on total plan assets for each plan at year end. The long-term rate of return on plan assets assumption is determined considering historical returns and expected future asset allocation and returns for each plan.

|  | Benefit Obligations as of December 31, |      |                |      |       |      |
|--|--|------|----------------|------|-------|------|
|  | U.S. Plans                             |      | Non-U.S. Plans |      | Total |      |
|  | 2014                                   | 2013 | 2014           | 2013 | 2014  | 2013 |
| Discount rate                                  | 3.8%                                   | 4.8% | 2.8%           | 4.0% | 3.5%  | 4.5% |
| Rate of increase in future compensation levels | 4.3%                                   | 4.3% | 1.0%           | 1.1% | 3.4%  | 3.2% |

|  | Net Periodic Pension Cost for the Years Ended December 31, |      |      |                |      |      |       |      |      |
|--|--|------|------|----------------|------|------|-------|------|------|
|  | U.S. Plans   |      |      | Non-U.S. Plans |      |      | Total |      |      |
|  | 2014   | 2013 | 2012 | 2014           | 2013 | 2012 | 2014  | 2013 | 2012 |
| Discount rate                                    | 4.8%   | 4.0% | 4.3% | 4.0%           | 3.8% | 4.4% | 4.5%  | 4.0% | 4.3% |
| Rate of increase in future compensation levels   | 4.3%   | 4.3% | 4.8% | 1.0%           | 3.6% | 4.2% | 3.4%  | 4.1% | 4.6% |
| Expected long-term rate of return on plan assets | 5.6%   | 5.6% | 6.6% | 5.6%           | 5.6% | 5.9% | 5.6%  | 5.6% | 6.4% |

The Company uses the Citigroup Pension Discount Curve and matches points along the curve to the estimated future benefit payments of the U.S. defined benefit plans to arrive at an effective discount rate. The discount rates for non-U.S. defined benefit plans are based on benchmark rate indices specific to the respective countries and durations similar to those of the plans' liabilities.

In 2014, the Company determined that its best estimate for a mortality assumption related to its U.S. defined benefit plans was to follow the recommendation of the Society of Actuaries (“SOA”) and implement the new mortality tables and related improvement scale released by the SOA in 2014. The new mortality information reflects improved life expectancies and an expectation that the trend will continue, which increased the Company’s benefit obligation as of December 31, 2014.

The Company expects to pay benefits under its defined benefit plans in future periods as detailed in the following table. The expected benefits have been estimated based on the same assumptions used to measure the Company’s benefit obligation as of December 31, 2014 and include benefits attributable to future employee service.

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## Estimated Future Benefit Payments

|           | U.S. Plans | Non-U.S. Plans | Total    |
|-----------|------------|----------------|----------|
| 2015      | \$ 91.4    | \$ 24.5        | \$ 115.9 |
| 2016      | 93.1       | 28.7           | 121.8    |
| 2017      | 95.6       | 31.2           | 126.8    |
| 2018      | 98.6       | 33.8           | 132.4    |
| 2019      | 102.2      | 35.7           | 137.9    |
| 2020-2024 | 578.3      | 213.7          | 792.0    |

## Other Postretirement Plans

In addition to providing pension benefits, the Company provides certain health care benefits for most retired employees, primarily in the U.S. The cost of providing these benefits to retirees outside the U.S. is not significant; therefore, this discussion relates to the U.S. plans only. Net periodic postretirement benefit cost included the following components:

|  | Years Ended December 31, |         |         |
|--|--------------------------|---------|---------|
|  | 2014                     | 2013    | 2012    |
| Net Periodic Postretirement Benefit Cost |                          |         |         |
| Service cost                             | \$ 4.7                   | \$ 5.9  | \$ 5.9  |
| Interest cost                            | 12.7                     | 13.4    | 14.2    |
| Amortization of prior service credits    | (1.5)                    | (1.6)   | (4.7)   |
| Amortization of actuarial losses         | 4.1                      | 8.7     | 7.4     |
| Total                                    | \$ 20.0                  | \$ 26.4 | \$ 22.8 |

Other changes in benefit obligations that were recognized in or reclassified from other comprehensive income included:

|  | Years Ended December 31, |           |
|--|--------------------------|-----------|
|  | 2014                     | 2013      |
| Amortization of prior service credits        | \$ 1.5                   | \$ 1.6    |
| Amortization of loss                         | (4.1)                    | (8.7)     |
| Prior service credit arising during the year | (19.7)                   | -         |
| Net loss (gain) arising during the year      | 29.5                     | (44.0)    |
| Total  | \$ 7.2                   | \$ (51.1) |

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The reconciliation of the beginning and ending balances of the accumulated postretirement benefit obligation was as follows:

|   | December 31, |            |
|---|--------------|------------|
|   | 2014         | 2013       |
| <b>Change in accumulated postretirement benefit obligation</b>              |              |            |
| Accrued postretirement benefit obligation at beginning of year              | \$ 320.0     | \$ 362.9   |
| Service cost  | 4.7          | 5.9        |
| Interest cost   | 12.7         | 13.4       |
| Actuarial loss/(gain)   | 29.5         | (44.0)     |
| Plan change   | (19.7)       | -          |
| Benefits paid   | (18.0)       | (18.2)     |
| Accumulated postretirement benefit obligation at end of year                | \$ 329.2     | \$ 320.0   |
| Funded status of plans  | \$ (329.2)   | \$ (320.0) |
| <b>Amounts recognized in the consolidated balance sheets</b>                |              |            |
| Current benefit liabilities   | \$ (17.8)    | \$ (19.9)  |
| Noncurrent benefit liabilities  | (311.4)      | (300.1)    |
| Total recognized liabilities  | \$ (329.2)   | \$ (320.0) |
| <b>Amounts recognized in accumulated other comprehensive loss (pre-tax)</b> |              |            |
| Prior service credit  | \$ (21.8)    | \$ (3.6)   |
| Net loss (gain)   | 108.6        | 83.2       |
| Accumulated other comprehensive loss  | \$ 86.8      | \$ 79.6    |

The Company expects to recognize \$7.1 of net loss and \$3.1 of net prior service credit as a component of net periodic postretirement benefit cost in 2015.

The health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 7.9% and 8.0% in 2014 and 2013, respectively. In both 2014 and 2013, the health care cost trend rate was assumed to decrease gradually to 5.0% in 2033 and remain at that level thereafter. The health care cost trend rate assumption has an effect on the amounts reported, but is offset by plan provisions that limit the Company's share of the total postretirement health care benefits cost for the vast majority of participants. The Company's portion of the total annual health care benefits cost is capped at specified dollar amounts for participants who retired in 1994 or later and such limits are expected to be reached in all subsequent years. Increasing the assumed health care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation by 2.0% and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 2014 by 1.5%. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation by 1.6% and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 2014 by 1.2%.

The discount rate used to determine the accumulated postretirement benefit obligation as of December 31, 2014 and 2013 was 3.8% and 4.5%, respectively. The discount rate used to determine net periodic postretirement benefit cost for the years ended December 31, 2014, 2013, and 2012 was 4.5%, 3.8%, and 4.3%, respectively. The Company uses the Citigroup Pension Discount Curve and matches points along the curve to the estimated future benefit payments of the U.S. postretirement health care benefit plans to arrive at an effective discount rate.

The Company funds most of the cost of the postretirement health care as incurred. Benefit payments to retirees were \$19.0 for the year ended December 31, 2014. Reimbursements received under Medicare Part D were \$1.0 for the year ended December 31, 2014. The Company expects to pay future benefits under its postretirement health care plans as detailed in the following table. The expected payments have been estimated based on the same assumptions used to measure the Company's postretirement benefit obligations as of December 31, 2014.

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|           | Estimated<br>Postretirement Benefit<br>Payments |
|-----------|---|
| 2015      | \$ 18.1   |
| 2016      | 18.3  |
| 2017      | 18.6  |
| 2018      | 19.0  |
| 2019      | 19.4  |
| 2020-2024 | 101.2   |

#### Defined Contribution Plans

The Company has various defined contribution and savings plans covering certain employees. The Company made matching contributions under defined contribution plans of \$17.1, \$17.8, and \$19.5 for the years ended December 31, 2014, 2013, and 2012, respectively. The U.S. plan is the largest of the defined contribution and savings plans maintained by the Company. Employer matching contributions for the U.S. defined contribution plan for the year ended December 31, 2014 were \$14.7. The Company expects to make additional contributions of \$17.1 to all defined contribution plans during 2015.

#### NOTE 16 – ACCUMULATED OTHER COMPREHENSIVE LOSS

A summary of the components of accumulated other comprehensive loss for the years ended December 31, 2014, 2013, and 2012, included the following components:

|  | Foreign<br>currency<br>translation<br>adjustment | Unrealized net<br>gain (loss) on<br>available for<br>sale securities | Net gain<br>(loss) on cash<br>flow hedges <sup>1</sup> | Unamortized<br>pension losses<br>and prior<br>service costs <sup>2</sup> | Accumulated<br>other<br>comprehensive<br>income (loss) |
|--|--|--|--|--|--|
| Balance as of December 31, 2011                        | \$ 228.1   | \$ (15.5)  | \$ (7.6)   | \$ (922.3)   | \$ (717.3)   |
| Other comprehensive income<br>before reclassifications | (10.6)   | 20.9   | (1.9)  | 15.1   | 23.5   |
| Amounts reclassified from AOCI <sup>3</sup>            | -  | (3.4)  | 6.0  | 54.6   | 57.2   |
| Net current-period other<br>comprehensive income       | (10.6)   | 17.5   | 4.1  | 69.7   | 80.7   |
| Balance as of December 31, 2012                        | \$ 217.5   | \$ 2.0   | \$ (3.5)   | \$ (852.6)   | \$ (636.6)   |
| Other comprehensive income<br>before reclassifications | 11.6   | 3.7  | -  | 192.9  | 208.2  |
| Amounts reclassified from AOCI <sup>3</sup>            | -  | -  | 3.5  | 53.1   | 56.6   |
| Net current-period other<br>comprehensive income       | 11.6   | 3.7  | 3.5  | 246.0  | 264.8  |
| Balance as of December 31, 2013                        | \$ 229.1   | \$ 5.7   | \$ -   | \$ (606.6)   | \$ (371.8)   |
| Other comprehensive income<br>before reclassifications | (158.1)  | 7.2  | -  | (308.3)  | (459.2)  |
| Amounts reclassified from AOCI <sup>3</sup>            | -  | (15.0)   | -  | 31.6   | 16.6   |

|   |         |          |      |            |            |
|---|---------|----------|------|------------|------------|
| Net current-period other comprehensive income | (158.1) | (7.8)    | -    | (276.7)    | (442.6)    |
| Balance as of December 31, 2014               | \$ 71.0 | \$ (2.1) | \$ - | \$ (883.3) | \$ (814.4) |

1 Net of tax effect of \$(0.0), \$(2.1), and \$(2.4) for the years ended December 31, 2014, 2013, and 2012, respectively. Tax effects of gains and losses arising during the period and reclassifications for gains included in income are included in the table below.

2 Net of tax effect of \$141.9, \$(130.1), and \$(40.3) for the years ended December 31, 2014, 2013, and 2012, respectively. Tax effects of gains and losses arising during the period and amortization in net income are included in the table below.

3 The unamortized pension losses and prior service costs are included in the computation of net periodic pension cost (see Note 15 for additional details).

|   | Years Ended December 31, |            |           |
|---|--------------------------|------------|-----------|
|   | 2014                     | 2013       | 2012      |
| Net gain (loss) on cash flow hedges:                    |                          |            |           |
| Gain (loss) arising during the period                   | \$ -                     | \$ (0.1)   | \$ 1.0    |
| Less: reclassification for gain included in income      | -                        | (2.0)      | (3.4)     |
| Net unrealized gain (loss) on cash flow hedges          | -                        | (2.1)      | (2.4)     |
| Defined benefit plan adjustments:                       |                          |            |           |
| Net gain (loss) arising during the period               | 159.4                    | (99.6)     | (8.3)     |
| Less: amortization of pension adjustments in net income | (17.5)                   | (28.4)     | (29.6)    |
| Defined benefit plans, net                              | 141.9                    | (128.0)    | (37.9)    |
| Total tax (expense) benefit                             | \$ 141.9                 | \$ (130.1) | \$ (40.3) |

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## NOTE 17 – COMMITMENTS AND CONTINGENCIES

## Chapter 11 Related Matters

On May 15, 1995 (the “Filing Date”), the Company voluntarily filed for protection under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Eastern District of Michigan in order to resolve the Company’s breast implant liabilities and related matters (the “Chapter 11 Proceeding”). The Company’s Joint Plan of Reorganization (the “Plan”) was confirmed in November 1999 and provides funding for the resolution of breast implant and other products liability litigation covered by the Chapter 11 Proceeding through several settlement options or through litigation and provides a process for the satisfaction of commercial creditor claims in the Chapter 11 Proceeding. The Company emerged from the Chapter 11 Proceeding on June 1, 2004 (the “Effective Date”) and is implementing the Plan.

## Breast Implant and Other Products Liability Claims

The centerpiece of the Plan is a products liability settlement program administered by an independent claims office (the “Settlement Facility”). Claim processing activities of the Settlement Facility are performed under the management and direct oversight of a court-appointed Finance Committee. Products liability claimants rejecting the settlement program in favor of pursuing litigation must bring suit against a litigation facility (the “Litigation Facility”). Under the Plan, total payments by the Company committed to resolving products liability claims are capped at a maximum \$2.35 billion net present value (“NPV”) determined as of the Effective Date using a discount rate of 7%. Of this amount, no more than \$400.0 NPV determined as of the Effective Date (the “Litigation Subfund”) can be used to fund the Litigation Facility. The Plan provisions specify certain fixed benefit amounts paid based on claimant eligibility (“First Priority”), as well as additional secondary benefit amounts (“Second Priority”) that vary based on claimant eligibility and availability of funds for distribution after the First Priority payments have been satisfied. Under certain circumstances described in the Plan, the Litigation Subfund can be used to fund the settlement program, but only for First Priority payments.

The Company has an obligation to fund the Settlement Facility and the Litigation Facility (collectively, the “Facilities”) over a 16-year period, commencing at the Effective Date. Under the Plan, the Company is not required to remit additional funds to the Settlement Facility unless and until necessary to preserve liquidity. The amount of funds paid by or on behalf of the Company is subject to annual and aggregate funding limits. Insurance recoveries are paid directly to the Settlement Facility by the Company or by the Company’s insurers on behalf of the Company. In 2013, the Company recognized a \$24.2 gain in “Other nonoperating income, net” in the consolidated statements of income in connection with insurance settlements. As of December 31, 2014, the Company and its insurers have made life-to-date payments of \$1,753.2 to the Settlement Facility and the Settlement Facility reported an unexpended balance of \$191.8. The Company anticipates that it will be able to meet its remaining payment obligations to the Facilities utilizing cash flow from operations, insurance proceeds, and/or prospective borrowings.

As of December 31, 2013, the Company’s “Implant liability” recorded in the consolidated balance sheets was \$1,616.4. Consistent with previous liability amounts reported after Plan inception, this liability reflected the maximum capped amount under the Plan and represented management’s best estimate of the remaining obligation to fund the resolution of breast implant and other medical device claims pursuant to the Plan. As of December 31, 2014, the Company revised its estimate and reduced the implant liability to \$363.6. The revision to the estimate was due to a combination of factors and the basis for the reduction is described in the following paragraphs.

Overall, the Settlement Facility has reported that claim filing rates and aggregate claim payouts have declined in recent years compared to the levels experienced near plan inception. Under the Plan, the Settlement Facility

administers various levels of benefits to multiple classes of claimants based on claimant eligibility and the claimant's ability to demonstrate certain medical or other qualifying criteria. Since Plan inception, filing deadlines for certain categories of benefits have expired and benefit payments to certain groups of claimants have been fully or substantially distributed. The Domestic Breast Implant Personal Injury class ("Class 5") represents the largest group of claimants in the Settlement Facility with the highest aggregate eligible benefit values. As of December 31, 2014, the Settlement Facility reported that approximately \$1.2 billion in funds had been distributed to Class 5 claimants. As of June 1, 2014, filing deadlines for all settlement benefits in this group, other than "Disease" benefits, had expired. Class 5 claimants remain eligible to file claims under the "Disease" benefit category through June 1, 2019. As of December 31, 2014, the Settlement Facility reported that approximately 57,000 claimant "Disease" filings have been resolved, representing approximately \$600.0 of the \$1.2 billion distributed to this group. Based on the information reported by the Settlement Facility, approximately 63,000 Class 5 claimants remain potentially eligible to file "Disease" claims as of December 31, 2014. This group represents the most significant remaining source of liability exposure as qualifying claimants are eligible for payments ranging from \$2 thousand to \$250 thousand dollars per claim. While management anticipates a rise in claim filings as the 2019 filing deadline approaches, as is typical for mass tort settlement programs, future filing behaviors and the level of future funding requirements for this group over the remaining duration of the plan are uncertain.

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Since the Effective Date, approximately 740 opt-out lawsuits have been brought against the Litigation Facility. As of December 31, 2014, the Settlement Facility reported that approximately \$35.4 has been expended by the Litigation Facility and 17 claims remain unresolved.

In December 2013, the U.S. District Court for the Eastern District of Michigan, acting upon the recommendation and motion of the court-appointed Finance Committee and over the objection of the Company, authorized the Finance Committee to disburse a portion (50%) of Second Priority payments to claimants. The Settlement Facility began disbursing payments to claimants under the court's authorization in the second quarter of 2014. The Plan documents provide that Second Priority payments, in full or in part, may be paid only upon a showing that adequate funding for First Priority payments is assured. The Company believes the required level of assurance, as set forth in the Plan documents, has not been demonstrated. An appellate court ruling in January 2015 supports the Company's legal view. Although the timing of the disbursements is under legal dispute, the majority of the court-authorized Second Priority payments have been disbursed to claimants as of December 31, 2014.

In the second quarter of 2014, the Company received the Final Report on Claims Processing in the Revised Settlement Program (the "RSP Final Report"). The Revised Settlement Program (the "RSP") was a program sponsored by certain other breast implant manufacturers in the context of multi-district, coordinated federal breast implant cases. The RSP was also a revised successor to an earlier settlement plan involving the Company (prior to its bankruptcy filing) and was open from 1995 through 2010. While the Company withdrew from the RSP, many of the benefit categories and payment levels in the Company's settlement program were drawn from the RSP. The RSP Final Report indicated that claim filing levels and benefits paid as reported in the comparable remaining periods of the RSP were substantially lower than filing levels and payments reported in earlier periods of the RSP.

Primarily as a result of the court's authorization to disburse a portion of Second Priority payments and management's assessment of information contained in the RSP Final Report, management determined sufficient information existed to revise its estimate of the implant liability during the fourth quarter of 2014. The court's concurrence with the motion of the court-appointed Finance Committee and the actual disbursement of early Second Priority payments provided stronger indication that these parties do not expect the maximum level of funding to be required in order to satisfy future obligations under the Plan. Further, management concluded that claim information from the RSP Final Report would provide a reasonable basis to estimate future claim filing levels for the comparable periods remaining in the Settlement Facility. This conclusion was based on an analysis that compared the design of both plans, as well as a comparison of actual claim filing experience observed through the first 10 years of each plan. Management has determined that through 2014, adequate time has passed and sufficient actual claim experience has been accumulated in order to make a reasonable judgment on the comparability of claim experience between the RSP and the Settlement Facility. Management, with the assistance of a third-party advisor, developed an estimate of the future Settlement Facility liability, primarily based on the assumption that future claim filings in the Settlement Facility will be similar to claim filing trends observed in the comparable periods of the RSP. This assessment resulted in an estimated liability of \$363.6. Accordingly, as of December 31, 2014, management reduced the recorded liability to this amount and reflected the \$1,299.8 reduction in "Implant liability adjustment" in the consolidated statements of income.

Management believes the revised liability reflects the best estimate of the remaining funding obligations under the Plan; however, the estimate relies upon a number of significant assumptions, including:

- Future claim filing levels in the Settlement Facility will be similar to the RSP;
- Future acceptance rates, disease mix, and payment values will be materially consistent with historical experience;
  - No material negative outcomes in future controversies or disputes over Plan interpretation will occur; and
  - The Plan will not be modified.

If actual outcomes related to any of these assumptions prove to be materially different, the future liability to fund the Plan may be materially different than the amount estimated. If Dow Corning was ultimately required to fund the full liability up to the maximum capped value, the liability would be \$1,681.7 as of December 31, 2014.

#### Insurance Allocation Agreement between the Company and Dow Chemical

A number of the products liability insurance policies relevant to claims against the Company name the Company and Dow Chemical as co-insureds (the “Shared Insurance Assets”). In order to resolve issues related to the amount of the Shared Insurance Assets that would be available to the Company for resolution of its products liability claims, the Company and Dow Chemical entered into an insurance allocation agreement. Under this agreement, 25% of certain of the Shared Insurance Assets were paid by the Company to Dow Chemical subsequent to the Effective Date. The maximum amount payable under the agreement was \$285.0. As of December 31, 2014, \$284.1 had been paid to Dow Chemical and \$0.9 was reflected in “Other noncurrent liabilities” in the consolidated balance sheets.

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In accordance with the agreement, a portion of any such amounts paid to Dow Chemical, to the extent not offset by certain qualifying product liability claims paid by Dow Chemical, will be paid over to the Company after the expiration of a 17.5-year period commencing on the Effective Date. As of December 31, 2014, Dow Chemical had given notice to the Company that it has thus far incurred \$174.0 of potentially qualifying claims.

#### Commercial Creditor Issues

The Joint Plan of Reorganization provides that each of the Company's commercial creditors (the "Commercial Creditors") would receive in cash the sum of (a) an amount equal to the principal amount of their claims and (b) interest on such claims. The actual amount of interest that will ultimately be paid to these Commercial Creditors is uncertain due to pending litigation between the Company and the Commercial Creditors regarding the appropriate interest rates to be applied to outstanding obligations from the Filing Date through the Effective Date (the "Pendency Interest") as well as the presence of any recoverable fees, costs, and expenses.

The Company's position is that (a) Pendency Interest should be (i) an amount determined by applying non-default rates of interest for floating rate obligations in accordance with the formulas in the relevant contracts, except that the aggregate amount of interest cannot be less than that resulting from the application of a fixed rate of 6.28% through the Effective Date and (ii) the higher of the relevant contract rates or 6.28% for all other obligations to the Commercial Creditors through the Effective Date, (b) interest payable to the Commercial Creditors for periods following the Effective Date should be computed at 5%, and (c) default interest rates should not apply (the "Company's Position"). The Commercial Creditors' position is that (a) Pendency Interest should be an amount determined by applying default rates of interest with respect to amounts overdue under the terms of the relevant debt and commercial agreements until the Effective Date, (b) interest payable to the Commercial Creditors for periods following the Effective Date should be computed at 5%, and (c) certain of the Commercial Creditors are entitled to unspecified fees, costs, and expenses. The Company has paid to the Commercial Creditors an amount of interest that the Company considers to be undisputed, which was calculated by application of the Company's Position (the "Undisputed Portion").

In July 2006, the U.S. Court of Appeals for the Sixth Circuit concluded that there is a general presumption that contractually specified default interest should be paid by a solvent debtor to unsecured creditors (the "Interest Rate Presumption") and permitting the Company's Commercial Creditors to recover fees, costs, and expenses where allowed by relevant loan agreements and state law. The matter was remanded to the U.S. District Court for the Eastern District of Michigan for further proceedings, including rulings on the facts surrounding specific claims and consideration of any equitable factors that would preclude the application of the Interest Rate Presumption.

As of December 31, 2014, the Company has paid approximately \$1.5 billion to the Commercial Creditors, representing principal and the Undisputed Portion. As of December 31, 2014, the Company has estimated its liability payable to the Commercial Creditors to be within a range of \$98.9 to \$324.3. However, no single amount within the range appears to be a better estimate than any other amount within the range. Therefore, the Company has recorded the minimum liability within the range. As of December 31, 2014 and December 31, 2013, the amount of interest included in "Accrued interest" in the consolidated balance sheets related to the Company's potential obligation to pay additional interest to its Commercial Creditors in the Chapter 11 Proceeding was \$97.4 and \$92.7, respectively. The actual amount of interest that will be paid to these creditors is uncertain and will ultimately be resolved through continued proceedings in the District Court.

#### Risks and Uncertainties

The actual amount of future liabilities to resolve Chapter 11 related matters is uncertain. As additional facts and circumstances develop related to Chapter 11 matters, it is at least reasonably possible that estimates recorded in the

Company's consolidated financial statements may be revised. Future revisions, if required, could have a material effect on the Company's financial position and results of operations in the period or periods in which such revisions are recorded. Since any specific future developments, and the impact such developments might have on amounts recorded in the Company's consolidated financial statements, are unknown at this time, an estimate of possible future adjustments cannot be made.

#### Environmental Matters

The Company was previously advised by the U.S. Environmental Protection Agency ("EPA") or by similar state and non-U.S. national regulatory agencies that the Company, together with others, is a Potentially Responsible Party ("PRP") with respect to a portion of the cleanup costs and other related matters involving a number of waste disposal sites. Management believes that there are 25 sites at which the Company may have some liability, although management expects to settle the Company's liability for 11 of these sites for amounts that are not material.

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Based upon preliminary estimates by the EPA or the PRP groups formed with respect to these sites, the aggregate liabilities for all PRP's at those sites at which management believes the Company may have more than a de minimis liability is \$30.3. Management cannot estimate the aggregate liability for all PRP's at all of the sites at which management expects the Company has a de minimis liability. The Company records accruals for environmental matters when it is probable that a liability has been incurred and the Company's costs can be reasonably estimated. The amount accrued for environmental matters was \$4.1 and \$3.6 as of December 31, 2014 and 2013, respectively.

As additional facts and circumstances develop, it is at least reasonably possible that the accrued liability related to environmental matters may be revised. While there are a number of uncertainties with respect to the Company's estimate of its ultimate liability for cleanup costs at these waste disposal sites, management believes that any costs incurred in excess of those accrued will not have a material adverse impact on the Company's consolidated financial statements. This opinion is based upon the number of identified PRP's at each site, the number of such PRP's that are believed by management to be financially capable of paying their share of the ultimate liability, and the portion of waste sent to the sites for which management believes the Company might be held responsible based on available records.

#### Other Regulatory Matters

Companies that manufacture and sell chemical products may experience risks under current or future laws and regulations which may result in significant costs and liabilities. The Company routinely conducts health, toxicological, and environmental tests of its products. The Company cannot predict what future regulatory or other actions, if any, may be taken regarding the Company's products or the consequences of their production and sale. Such actions could result in significant losses, and there can be no assurance that significant losses would not be incurred. However, based on currently available information, the Company does not believe that any such actions would have a material adverse impact on the Company's financial statements.

#### Other Legal Matters

The Company is subject to various claims and lawsuits that arise during the normal course of business, including matters relating to commercial disputes, product liability, governmental regulation, and other actions. The Company believes that the possibility is remote that resolution of all presently pending matters would have a material adverse impact on the Company's consolidated financial statements.

#### Leases

The Company leases certain real and personal property under agreements that generally require the Company to pay for maintenance, insurance, and taxes. For the years ended December 31, 2014, 2013, and 2012 lease expense was \$52.9, \$51.4, and \$53.9, respectively. The minimum future lease payments required under noncancellable operating leases as of December 31, 2014 in the aggregate are \$252.5, including the following amounts due in each of the next five years: 2015 - \$44.7, 2016 - \$33.1, 2017 - \$23.5, 2018 - \$19.4, and 2019 - \$17.3.

#### NOTE 18 – CHANGES IN OWNERSHIP OF CONSOLIDATED SUBSIDIARIES

In 2013, the Company acquired additional ownership interests in three majority owned consolidated subsidiaries within the polycrystalline silicon industry in exchange for total cash consideration of \$266.1. The Company adjusted the carrying amount of the noncontrolling interest by \$111.3 to reflect the change in ownership of the

subsidiaries. The acquisitions were accounted for as equity transactions.

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## NOTE 19 – RELATED PARTY TRANSACTIONS

The Company has transactions in the normal course of business with its shareholders, Dow Chemical and Corning, and their affiliates. The following tables summarize related party transactions and balances with the Company's shareholders:

|                             | Years Ended December 31, |         |        |
|-----------------------------|--------------------------|---------|--------|
|                             | 2014                     | 2013    | 2012   |
| Sales to Dow Chemical       | \$ 19.3                  | \$ 17.0 | \$ 6.9 |
| Sales to Corning            | 15.4                     | 18.9    | 23.3   |
| Purchases from Dow Chemical | 52.4                     | 69.3    | 65.3   |

|                                       | December 31, |        |
|---------------------------------------|--------------|--------|
|                                       | 2014         | 2013   |
| Accounts receivable from Dow Chemical | \$ 2.1       | \$ 1.0 |
| Accounts receivable from Corning      | 1.0          | 0.7    |
| Accounts payable to Dow Chemical      | 3.9          | 2.1    |

Amounts shown as payables to Dow Chemical exclude the balance owed under the insurance allocation agreement disclosed in Note 17. In addition, the Company has transactions in the normal course of business with nonconsolidated affiliates and noncontrolling shareholders. The following tables summarize related party transactions and balances with nonconsolidated affiliates and noncontrolling shareholders:

|   | Years Ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2014                     | 2013     | 2012     |
| Sales to nonconsolidated affiliates and noncontrolling shareholders       | \$ 461.1                 | \$ 528.6 | \$ 612.4 |
| Purchases from nonconsolidated affiliates and noncontrolling shareholders | 357.0                    | 337.6    | 361.0    |

The 2013 and 2012 "Purchases from nonconsolidated affiliates and noncontrolling shareholders" have been increased by \$173.4 and \$92.2, respectively, to correct the amounts previously reported. The Company determined the impact of these revisions was not material to the prior periods, however, if revised, the comparability of prior periods would be enhanced.

|   | December 31, |         |
|---|--------------|---------|
|   | 2014         | 2013    |
| Accounts receivable from nonconsolidated affiliates and noncontrolling shareholders | \$ 91.6      | \$ 95.5 |
| Accounts payable to nonconsolidated affiliates and noncontrolling shareholders      | 24.6         | 7.2     |

In addition, the Company loans excess funds to Toray Industries, Inc., which is the noncontrolling shareholder of one of the Company's non-wholly owned consolidated subsidiaries. The amount of loans receivable as of December 31, 2014 and 2013 was \$34.6 and \$46.7, respectively. These balances are included in "Notes and other receivables" in the consolidated balance sheets.

In November 2012, a majority owned subsidiary received a loan from the noncontrolling shareholder, Wacker Chemie AG. The loan bears interest at 4.5% and is due in November 2021. In December 2012, the majority owned subsidiary received an additional loan from Wacker Chemie AG, which also bears interest at 4.5% and is due in November 2020. The outstanding balance of these loans was 705.0 and 740.1 Renminbi (\$115.2 and \$121.4 U.S. dollars,

respectively) as of December 31, 2014 and 2013, respectively. The loan balances are included in “Other noncurrent liabilities” in the consolidated balance sheets.

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Samsung Corning Precision  
Materials Co., Ltd.

Consolidated Financial Statements

As of December 31, 2013 and 2012  
and for the years ended  
December 31, 2013, 2012 and 2011

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Samsung Corning Precision Materials Co., Ltd.  
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## Independent Auditor's Report

To the Board of Directors and Shareholders of  
Samsung Corning Precision Materials Co., Ltd.

We have audited the accompanying consolidated financial statements of Samsung Corning Precision Materials Co., Ltd., and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income and cash flows for each of the three years in the period ended December 31, 2013.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Samsung Corning Precision Materials Co., Ltd., and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

/s/ Samil PricewaterhouseCoopers  
Seoul, Korea  
February 8, 2014

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Samsung Corning Precision Materials Co., Ltd.  
 Consolidated Balance Sheets  
 December 31, 2013 and 2012

| (in thousands, except share and per share amounts)                       | 2013                | 2012                |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| <b>Current assets</b>  |                     |                     |
| Cash and cash equivalents  | \$ 2,525,381        | \$ 1,609,360        |
| Short-term financial instruments   | 190,025             | 844,365             |
| <b>Accounts and notes receivable</b>                                     |                     |                     |
| Customers, net of allowance for doubtful accounts of \$5,115 and \$5,931 | 74,957              | 110,315             |
| Related parties  | 277,845             | 382,994             |
| Inventories  | 92,767              | 92,324              |
| Current deferred income tax assets, net                                  | 2,062               | 1,914               |
| Assets held for sale   | 292,617             | 313,288             |
| Other current assets   | 109,291             | 136,571             |
| <b>Total current assets</b>  | <b>3,564,945</b>    | <b>3,491,131</b>    |
| Equity method investments  | 2,352               | 6,689               |
| Property, plant and equipment, net                                       | 3,336,416           | 3,644,033           |
| Non-current deferred income tax assets, net                              | 102                 | 129                 |
| Other non-current assets   | 183,048             | 243,704             |
| <b>Total assets</b>  | <b>\$ 7,086,863</b> | <b>\$ 7,385,686</b> |
| <b>Liabilities and Equity</b>  |                     |                     |
| <b>Current liabilities</b>   |                     |                     |
| <b>Accounts payable</b>  |                     |                     |
| Trade accounts payable   | \$ 3,025            | \$ 16,098           |
| Non-trade accounts payable   | 21,753              | 32,834              |
| Related parties  | 50,507              | 78,549              |
| Income taxes payable   | 109,787             | 158,126             |
| Accrued bonus payable  | 60,198              | 71,667              |
| Accrued expenses   | 27,967              | 21,431              |
| Liabilities held for sale  | 51,095              | 14,228              |
| Other current liabilities  | 13,081              | 12,279              |
| <b>Total current liabilities</b>   | <b>337,413</b>      | <b>405,212</b>      |
| Accrued severance benefits, net  | -                   | 5,975               |
| Non-current deferred income tax liabilities, net                         | 210,740             | 247,185             |
| <b>Total liabilities</b>   | <b>548,153</b>      | <b>658,372</b>      |
| <b>Commitments and contingencies</b>                                     |                     |                     |

The accompanying notes are an integral part of these financial statements.

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Samsung Corning Precision Materials Co., Ltd.  
 Consolidated Balance Sheets  
 December 31, 2013 and 2012

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| (in thousands, except share and per share amounts)  | 2013                | 2012                |
|---|---------------------|---------------------|
| <b>Shareholders' equity</b>   |                     |                     |
| Preferred stock: par value \$8.51 per share, 153,190 shares authorized, 41,107 shares issued and outstanding      | \$ 350              | \$ 350              |
| Common stock: par value \$10.03 per share, 30,000,000 shares authorized, 17,617,462 shares issued and outstanding | 176,700             | 176,700             |
| Additional paid-in capital  | 312,114             | 312,114             |
| Retained earnings   | 5,749,288           | 6,040,493           |
| Accumulated other comprehensive income  | 290,078             | 185,480             |
| <b>Total Samsung Corning Precision Materials equity</b>   | <b>6,528,530</b>    | <b>6,715,137</b>    |
| Noncontrolling interests  | 10,180              | 12,177              |
| <b>Total equity</b>   | <b>6,538,710</b>    | <b>6,727,314</b>    |
| <b>Total liabilities and equity</b>   | <b>\$ 7,086,863</b> | <b>\$ 7,385,686</b> |

The accompanying notes are an integral part of these financial statements.

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Samsung Corning Precision Materials Co., Ltd.  
Consolidated Statements of Income  
Years ended December 31, 2013, 2012 and 2011

| (in thousands)   | 2013         | 2012         | 2011         |
|--|--------------|--------------|--------------|
| Net sales  |              |              |              |
| Related parties  | \$ 1,747,484 | \$ 2,294,153 | \$ 2,668,020 |
| Other  | 401,730      | 670,542      | 1,270,572    |
|  | 2,149,214    | 2,964,695    | 3,938,592    |
| Cost of sales  | 953,254      | 964,623      | 1,051,234    |
| Gross profit   | 1,195,960    | 2,000,072    | 2,887,358    |
| Selling and administrative expenses  | 151,812      | 140,927      | 160,861      |
| Research and development expenses  | 80,012       | 92,661       | 79,902       |
| Royalty expenses to related parties  | 55,572       | 81,616       | 213,838      |
| Operating income   | 908,564      | 1,684,868    | 2,432,757    |
| Other income (expense)   |              |              |              |
| Interest income (expense), net   | 72,772       | 91,914       | 110,561      |
| Foreign exchange (loss) gain, net  | (10,784)     | (35,160)     | 5,450        |
| Charitable donations   | (26,746)     | (26,815)     | (23,737)     |
| Other income (expense), net  | 506          | (5,205)      | 28,187       |
| Income from continuing operations before income taxes  | 944,312      | 1,709,602    | 2,553,218    |
| Provision for income taxes   | 223,502      | 301,652      | 477,230      |
| Income from continuing operations before equity losses   | 720,810      | 1,407,950    | 2,075,988    |
| Equity losses of affiliated companies  | (5,198)      | (39,366)     | (27,758)     |
| Net income from continuing operations  | 715,612      | 1,368,584    | 2,048,230    |
| Discontinued operations:   |              |              |              |
| (Loss) income from operations  | (67,021)     | 30,478       | 23,731       |
| Income tax expense   | 539          | 9,621        | 9,318        |
| Net income (loss) from discontinued operations   | (67,560)     | 20,857       | 14,413       |
| Net income including noncontrolling interests  | 648,052      | 1,389,441    | 2,062,643    |
| Less: Net (loss) income attributable to the noncontrolling interests                           | (1,299)      | (116)        | 1,873        |
| Net income attributable to Samsung Corning Precision Materials                                 | \$ 649,351   | \$ 1,389,557 | \$ 2,060,770 |
| Income from continuing operations attributable to Samsung Corning Precision Materials          | 716,911      | 1,368,700    | 2,046,357    |
| (Loss) income from discontinued operations attributable to Samsung Corning Precision Materials | (67,560)     | 20,857       | 14,413       |
| Net income attributable to Samsung Corning Precision Materials                                 | \$ 649,351   | \$ 1,389,557 | \$ 2,060,770 |

The accompanying notes are an integral part of these financial statements.

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Samsung Corning Precision Materials Co., Ltd.  
 Consolidated Statements of Comprehensive Income  
 Years ended December 31, 2013, 2012 and 2011

| (in thousands)   | 2013       | 2012         | 2011         |
|--|------------|--------------|--------------|
| Net income including noncontrolling interests                                      | \$ 648,052 | \$ 1,389,441 | \$ 2,062,643 |
| Other comprehensive income (loss), before tax:                                     |            |              |              |
| Foreign currency translation adjustments   | 137,850    | 771,533      | (357,249)    |
| Unrealized net gain (loss) on available for sale securities                        |            |              |              |
| Unrealized holding gain (loss) arising during the period                           | (735)      | 3,025        | (6,358)      |
| Less: reclassification adjustment for gain included in income                      | -          | -            | (23,441)     |
| Other comprehensive income (loss), before tax:                                     | 137,115    | 774,558      | (387,048)    |
| Income tax (expense) benefit related to items of other comprehensive income (loss) | (33,182)   | (187,443)    | 85,151       |
| Other comprehensive income (loss), net of tax:                                     | 103,933    | 587,115      | (301,897)    |
| Comprehensive income including noncontrolling interests                            | 751,985    | 1,976,556    | 1,760,746    |
| Less: Comprehensive income attributable to the noncontrolling interests            | (1,964)    | 1,027        | 1,868        |
| Comprehensive income attributable to Samsung Corning Precision Materials           | \$ 753,949 | \$ 1,975,529 | \$ 1,758,878 |

The accompanying notes are an integral part of these financial statements.

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Samsung Corning Precision Materials Co., Ltd.  
Consolidated Statements of Cash Flows  
Years ended December 31, 2013, 2012 and 2011

| (in thousands)   | 2013       | 2012         | 2011         |
|--|------------|--------------|--------------|
| <b>Cash flows from operating activities</b>                                      |            |              |              |
| Net income including noncontrolling interests                                    | \$ 648,052 | \$ 1,389,441 | \$ 2,062,643 |
| Adjustments to reconcile net income to net cash provided by operating activities |            |              |              |
| Depreciation   | 315,687    | 334,588      | 388,438      |
| Foreign exchange translation (gain) loss, net                                    | (140,325)  | (116,072)    | (3,382)      |
| Provision for severance benefits   | 27,212     | 26,924       | 18,385       |
| Deferred income tax expense (benefit)  | (29,817)   | 16,332       | (21,829)     |
| Equity losses of affiliated companies  | 5,198      | 39,366       | 27,758       |
| Impairment charges / write-off   | 127,196    | 35,173       | 10,954       |
| Amortization of long-term supply contract payment                                | 63,341     | 64,745       | -            |
| Gain on disposal of property, plant and equipment                                | (13,797)   | (345)        | (1)          |
| Other, net   | 1,799      | (14,335)     | (991)        |
| Changes in operating assets and liabilities                                      |            |              |              |
| Accounts and notes receivable  | 137,300    | 57,017       | (310,924)    |
| Inventories  | (29,603)   | 6,651        | (37,203)     |
| Other current assets   | 82,458     | (7,111)      | 27,629       |
| Payment on long-term supply contract   | -          | -            | (300,000)    |
| Accounts payable and other current liabilities                                   | 32,538     | (25,156)     | (3,741)      |
| Net cash provided by operating activities  | 1,227,239  | 1,807,218    | 1,857,736    |
| <b>Cash flows from investing activities</b>                                      |            |              |              |
| Purchases of property, plant and equipment                                       | (303,266)  | (407,451)    | (512,797)    |
| Decrease (increase) in short-term financial instruments, net                     | 607,475    | 21,611       | (242,721)    |
| Investment in affiliates   | -          | (7,000)      | -            |
| Change in restricted cash, net   | 3,645      | (11,974)     | (17,472)     |
| Net proceeds from sale or disposal of assets                                     | 157,663    | 85,304       | 24,468       |
| Other, net   | (2,190)    | 5,880        | (1,681)      |
| Net cash provided by (used in) investing activities                              | 463,327    | (313,630)    | (750,203)    |
| <b>Cash flows from financing activities</b>                                      |            |              |              |
| Increase in short-term borrowings  | 32,059     | -            | -            |
| Acquisition of subsidiary's stock  | -          | -            | (26,074)     |
| Cash dividends to noncontrolling interests                                       | (33)       | (65)         | (67)         |
| Cash dividends to Samsung Corning Precision Materials shareholders               | (940,556)  | (1,960,667)  | (1,116,619)  |
| Net cash used in financing activities  | (908,530)  | (1,960,732)  | (1,116,686)  |
| Effect of exchange rate changes on cash and cash equivalents                     | 133,985    | 379,536      | (24,063)     |

|  |              |              |              |
|--|--------------|--------------|--------------|
| Net increase (decrease) in cash and cash equivalents | 916,021      | (87,608)     | (33,216)     |
| Cash and cash equivalents                            |              |              |              |
| Beginning of year                                    | 1,635,434    | 1,723,042    | 1,756,258    |
| End of year  | \$ 2,551,455 | \$ 1,635,434 | \$ 1,723,042 |

Certain amounts for prior periods were reclassified to conform to the 2013 presentation.

The accompanying notes are an integral part of these financial statements.

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## 1. Organization and Nature of Operations

Samsung Corning Precision Materials Co., Ltd. and its subsidiaries (the “Company”) are providers of flat glass substrates which are used to manufacture TFT-LCD (Thin-Film Transistor Liquid Crystal Display) panels for notebook computers, LCD monitors, LCD TVs and other handheld devices. The Company’s major customers are Korean LCD panel makers such as Samsung Display Co., Ltd. (“Samsung Display”) and LG Display Co., Ltd. The Company’s current market is primarily companies incorporated in Korea.

The Company was incorporated on April 20, 1995 under the laws of the Republic of Korea in accordance with a joint venture agreement between Corning Incorporated (“Corning”) located in the U.S.A. and domestic companies in Korea. On December 31, 2007, the Company acquired all of outstanding shares of Samsung Corning Co., Ltd. (“SSC”) which owned 70% interest in Samsung Corning (Malaysia) Sdn. Bhd. (“SCM”), 60% interest in SSH Limited (“SSH”) and 51% interest in Global Technology Video Co., Ltd. (“GTV”). These SSC investments were accounted for as consolidated subsidiaries. SCM purchased 30% shares owned by Samsung SDI Co., Ltd. in SCM for \$ 26,074 thousand and retired the treasury stock in September 2011.

As of December 31, 2013, the issued and outstanding number of common shares of the Company is 17,617,462, of which are owned 50% by Corning Hungary Data Services Limited Liability Company, 7.4% by Corning Luxembourg S.ar.l., which are subsidiaries of Corning and 42.6% by Samsung Display, a subsidiary of Samsung Electronics Co., Ltd.

The Company has evaluated subsequent events through February 8, 2014, the date the financial statements are available to be issued.

## 2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). Significant accounting policies followed by the Company in the preparation of the accompanying consolidated financial statements are summarized below.

### Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company, including its subsidiaries in which a controlling interest is held. All significant intercompany balances and transactions have been eliminated in consolidation. Equity investments in which the Company exercises significant influence but does not control are accounted for using the equity method.

### Foreign Currency Translation

The Company operates primarily in Korean Won, its local and functional currency. The Company has chosen the U.S. dollar as its reporting currency. In accordance with ASC 830, Foreign Currency Matters, revenues and expenses are translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities are translated at the exchange rates on the balance sheet date. Equity accounts are translated at historical rates and the resulting translation gain or loss are recorded directly as a separate component of accumulated other comprehensive income (loss) in shareholders’ equity. Transaction gains or losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the income statement as

incurred. Assets and liabilities denominated in currencies other than the functional currency are translated at the exchange rates at the balance sheet date and the related exchange gains or losses are recorded in the statement of comprehensive income.

#### Translation of Foreign Currency Financial Statements of Subsidiaries

The consolidated financial position and results of operations of SCM are measured using its functional currency of the U.S. dollar. All other subsidiaries use their local currency as their functional currency. The financial statements of these subsidiaries are translated into Korean won, the Korean parent company's functional currency, using the current exchange rate method. Income and expenses are translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities are translated into U.S. dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical rates and the resulting translation adjustments are recorded directly in accumulated other comprehensive income as a component of shareholder's equity.

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### Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, the products have been delivered and all risks of ownership have been transferred to the customers, the sale price is fixed and determinable, and collection of the resulting receivable is reasonably assured. Utilizing these criteria, product revenue is recognized upon delivery of the product at customer's location or upon customer acceptance, depending on the terms of the arrangements. At the time revenue is recognized, allowances are recorded, with the related reduction to revenue, for estimated product returns and price discounts based upon historical experience and the related terms of customer arrangements.

### Use of Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect amounts reported in the accompanying consolidated financial statements and disclosures. The most significant estimates and assumptions relate to the useful life of property, plant and equipment, estimates of fair value of available for sale securities, allowance for uncollectible accounts receivable, contingent liabilities, inventory valuation, impairment of long-lived assets and allocated expenses, income taxes and deferred tax valuation allowances. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from those estimates.

### Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments that are readily convertible into cash. The Company considers securities with contractual maturities of three months or less, when purchased, to be cash equivalents. The carrying amount of these securities approximates fair value because of the short-term maturity of these instruments.

Supplemental disclosure of cash flow information follows:

| (in thousands)   | 2013     | 2012      | 2011      |
|--|----------|-----------|-----------|
| <b>Non-cash transactions</b>                               |          |           |           |
| Acquisition of capital assets included in accounts payable | \$ 9,364 | \$ 42,463 | \$ 31,958 |
| <b>Cash paid for interest and income taxes</b>             |          |           |           |
| Cash paid for interest                                     | -        | -         | 57        |
| Cash paid for income taxes, net of refund                  | 303,094  | 440,157   | 405,278   |

### Restricted Cash

Restricted cash mainly represents time deposits with local Korean banks who support small-size companies. Deposits are kept with these banks as part of the Company's corporate responsibility program. The Company has included the restricted cash in the other non-current assets and short-term financial instruments as of December 31, 2013 and 2012.

### Short-Term Financial Instruments

The Company's short-term financial instruments are time deposits with financial institutions. These time deposits have original maturities of twelve months or less, and their carrying values approximate fair value.

### Available-for-Sale Securities

The Company's other non-current assets include available-for-sale securities that are recorded at fair value. These securities are equity securities that have readily determinable fair values. Unrealized gains and losses, net of deferred income taxes, are reported as a separate component of accumulated other comprehensive income in shareholders' equity until realized.

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Available-for sale securities reflected in “other non-current assets” in the consolidated balance sheets as at December 31, 2013 and 2012 were \$5,835 thousand and \$6,366 thousand, respectively. The cost, gross unrealized gains and fair value of the available-for-sale securities were as follows:

| (in thousands)    | 2013   |                        |            | 2012   |                        |            |
|-------------------|--------|------------------------|------------|--------|------------------------|------------|
|                   | Cost   | Gross unrealized gains | Fair value | Cost   | Gross unrealized gains | Fair value |
| Equity securities | \$ 103 | \$ 5,732               | \$ 5,835   | \$ 103 | \$ 6,263               | \$ 6,366   |

There were no realized gains during the year ended December 31, 2013 and 2012.

#### Inventories

Inventories are stated at the lower of cost or market, with cost being determined by the average cost method, which approximates the first-in, first-out method. The cost of inventories is determined based on the normal capacity of the production facility. In case the capacity utilization is lower than a level that management believes to be normal, the fixed overhead costs per production unit which exceeds those under normal capacity, are charged to cost of sales rather than capitalized as inventories.

#### Property and Depreciation

Property, plant and equipment, including precious metals, are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the following estimated useful lives except for the depreciation of precious metals.

|   |             |
|---|-------------|
| Buildings   | 15–40 years |
| Machinery and equipment (excluding precious metals) | 1.5–8 years |
| Vehicle, tools, furniture and fixtures              | 2–8 years   |

Manufacturing equipment includes certain components of production equipment that are constructed of precious metals. These assets are not depreciated because they have very low physical losses and are repeatedly reclaimed and reused in the Company’s manufacturing process over a very long useful life. The Company treats the physical loss of precious metals in the manufacturing and reclamation process as depletion and accounts for these losses as a period expense based on reasonably estimated units lost. Precious metals are integral to many of the Company’s glass production processes. Precious metals are only acquired to support the Company’s operations and are not held for trading or other purposes.

#### Finite-lived Intangible Assets

Finite-lived intangible assets are amortized on a straight-line basis over their useful lives.

#### Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group against future undiscounted cash flows expected to be generated from

the asset or asset group. The Company assesses the recoverability of the carrying value of long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If the sum of the expected future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is measured as the difference between the estimated fair value and the carrying value.

#### Accrued Severance Benefits

Employees and directors with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of December 31, 2013, approximately all employees of the Company were eligible for severance benefits. Accrued severance benefits represent the amount which would be payable assuming eligible employees and directors were to terminate their employment with the Company as of the balance sheet date.

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Changes in accrued severance benefits for each period are as follows:

| (in thousands)  | 2013        | 2012      | 2011      |
|---|-------------|-----------|-----------|
| Balance at the beginning of the year                        | \$ 77,907   | \$ 55,023 | \$ 41,909 |
| Provision for severance benefits                            | 24,705      | 24,749    | 16,380    |
| Severance payments  | (6,799)     | (7,931)   | (4,057)   |
| Translation adjustments and other                           | 1,849       | 6,066     | 791       |
|   | 97,662      | 77,907    | 55,023    |
| Less: Cumulative contributions to the National Pension Fund | (45)        | (47)      | (53)      |
| Severance plan assets                                       | (100,800)   | (71,885)  | (43,099)  |
| Balance at the end of the year                              | \$ (3,183)1 | \$ 5,975  | \$ 11,871 |

1 The balance included in other current assets as of December 31, 2013.

During 2010, under new tax and labor laws, the Company elected to fund the accrued severance benefits through severance plan assets for which Samsung Fire & Marine Insurance Co., Ltd., has guaranteed a certain rate of return to the Company. The severance plan assets are classified as a reduction from the accrued severance benefits. As of December 31, 2013 and 2012, the accrued severance benefits are approximately 101% and 94% funded.

Also, in accordance with the National Pension Act of the Republic of Korea, a portion of accrued severance benefits was deposited with the National Pension Fund and deducted from the accrued severance benefits. The contributed amount is paid to employees from the National Pension Fund upon their separation from the Company.

#### Research and Development Costs

Research and development expenditures, which include costs in relation to new product, development, research, process improvement and product use technology, are expensed as incurred and included in operating expenses.

#### Income Taxes and Investment Tax Credit

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred income tax assets and liabilities are computed on the temporary differences by applying the enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred income tax assets are recognized when it is more likely than not that they will be realized. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized. The total income tax provision includes the current income tax expense under the applicable tax regulation and the change in the balance of deferred income tax assets and liabilities during the year.

The Company is eligible to use investment tax credits that are temporarily allowed for qualified plant and equipment expenditures. The investment tax credit is recognized as a reduction of tax expense in the year in which the qualified plant and equipment expenditure is incurred.

In determining the Company's provision for income taxes, the Company uses annual effective income tax rates. The effective tax rate also reflects the Company's assessment of the ultimate outcome of tax audits. In evaluating the tax benefits associated with the Company's various tax filing positions, the Company assesses its income tax positions and records a tax benefit for uncertain tax positions using the highest cumulative tax benefit that is more likely than not to be realized. Adjustments are made to the Company's liability for unrecognized tax benefits in the period in which the Company determines the issue is effectively settled with the tax authorities, the statute of limitations expires for the return containing the tax position or when more information becomes available. The Company's policy is to include interest and penalties related to unrecognized tax benefits within the income tax expense line item in the consolidated statements of income.

Discrete events such as tax audit settlements or changes in tax laws are recognized in the period in which they occur. Valuation allowances are established when management is unable to conclude that it is more likely than not that some portion, or all, of the deferred tax asset will ultimately be realized.

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#### Equity Method Investments

The equity method of accounting is used for investments in affiliated companies that are not controlled by the Company and in which the Company's interest is generally between 20% and 50% and the Company has significant influence over the entity. The Company's share of earnings or losses of affiliated companies, in which at least 20% of the voting securities is owned and the Company has significant influence but not control over the entity, is included in consolidated operating results.

The Company uses the cost method to account for the Company's investments in companies that the Company does not control and for which the Company does not have the ability to exercise significant influence over operating and financial policies. In accordance with the cost method, these investments are recorded at cost or fair value, as appropriate.

All material intercompany accounts, transactions and profits are eliminated in consolidation.

The Company's equity method investments are reviewed for impairment on a periodic basis or if an event occurs or circumstances change that indicate the carrying amount may be impaired. This assessment is based on a review of the equity investments' performance and a review of indicators of impairment to determine if there is evidence of a loss in value of an equity investment. Factors the Company considers include:

- Absence of the Company's ability to recover the carrying amount;
- Inability of the equity affiliate to sustain an earnings capacity which would justify the carrying amount of the investment; and
- Significant litigation, bankruptcy or other events that could impact recoverability.

For an equity investment with impairment indicators, the Company measures fair value on the basis of discounted cash flows or other appropriate valuation methods, depending on the nature of the company involved. If it is probable that the Company will not recover the carrying amount of their investment, the impairment is considered other-than-temporary and recorded in earnings, and the equity investment balance is reduced to its fair value accordingly. The Company requires their equity method affiliates to provide audited financial statements. Consequently, required assessments of asset recoverability are included in their results. The Company also includes these financial statements in their recoverability assessment.

#### Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update No. 2013-11 Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists. With certain exceptions, ASU 2013-11 requires entities to present an unrecognized tax benefit, or portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. The guidance is effective for interim and annual periods beginning after December 15, 2013 on either a prospective or retrospective basis with early adoption permitted. The Company does not expect adoption of this guidance to have a material impact on its consolidated results of operations and financial condition.

In March 2013, the FASB issued Accounting Standards Update No. 2013-05 Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. ASU 2013-05 clarifies when to release the cumulative translation adjustment into net income for transactions involving the disposition of some or all of an investment or a business combination achieved in stages (step acquisitions). The amendments are effective prospectively for interim and annual periods beginning on or after December 15, 2013. The Company does not expect adoption of this guidance to have a material impact on its consolidated results of operations and financial condition.

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In February 2013, the FASB issued Accounting Standards Update No. 2013-04 Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. ASU 2013-04 requires an entity to measure such obligations as the sum of the amount that the reporting entity agreed to pay on the basis of its arrangement with co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance is effective for interim and annual periods beginning after December 15, 2013. Retrospective presentation for all comparative period presented is required with early adoption permitted. The Company does not expect adoption of this guidance to have a material impact on its consolidated results of operations and financial condition.

The FASB issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, on February 5, 2013. The standard is effective for public entities for annual periods, and interim periods within those periods, beginning after December 15, 2012. Non-public companies will adopt the standard one year later, but would be exempt from certain interim disclosure requirements.

The standard is intended to improve the reporting of reclassifications out of accumulated other comprehensive income of various components. Among other things, an entity is required to present either parenthetically on the face of the financial statements or in the notes, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. However, an entity would not need to show the income statement line item affected for certain components that are not required to be reclassified in their entirety to net income, such as amounts amortized into net periodic pension cost. The adoption of ASU No. 2013-02 does not have a material impact on the Company's financial position or results of operations.

### 3. Discontinued Operation

As specified in the Framework Agreement by and among Samsung Display, Corning, solely for the purposes of Sections 1.5, 6.1 and 11 thereof, Corning Hungary Data Services Limited Liability Company, Corning Holding Japan, G.K., and Corning Luxembourg S.ar.l., dated October 22, 2013 ("Framework Agreement") to which SCP and Samsung Corning Advanced Glass LLC. ("SCG") became parties pursuant to the SCP Joinder Agreement and the SCG Joinder Agreement, respectively.

In connection with the Framework Agreement, on December 6, 2013, the Board of Directors authorized the Company to sell the Target Business, which is a core material that ensures conductivity and transparency by coating a flat panel display, to SCG. The Business Transfer Agreement was signed on January 17, 2014, stipulates that the sale occur on February 1, 2014. The net proceeds are expected to be \$158,341 thousand.

In connection with the Framework Agreement, on December 6, 2013, the Board of Directors authorized the Company to sell all facilities within the Company's Gumi plant but excluding any assets comprising the Target Business. Accordingly, the Real Property Sale and Purchase Agreement was entered with SCG on January 23, 2014, stipulates that the sale occur on February 1, 2014. The net proceeds are expected to be \$83,998 thousand.

In connection with the Framework Agreement, the Company shall dispose precious metals and the disposal are expected to occur on February 17, 2014 under the management plan. The net proceeds expected to be calculated based on the market price at the date of transactions.

In connection with the Framework Agreement, SCP shall shut down its existing photovoltaic glass business (“PV Business”) within one year following the agreement date and, no later than one year after the general completion of such shut-down of the PV Business, operated by SCM. Accordingly, the Company plans to market the remaining assets of PV Business and complete the disposition of PV Business to comply with the Framework Agreement. An impairment charge of \$62,722 thousand was recognized by fully written down of the net book value of long-lived assets in the year ended December 31, 2013.

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As a result, the operating results of Target Business and PV Business to be sold are reported as discontinued operations in all periods presented. Amounts previously reported have been reclassified to conform to this presentation in accordance with ASC 205, Presentation of Financial Statements, to allow for meaningful comparison of continuing operations. The Company's historical financial results, except for disclosures related to cash flows, have been restated to account for Target Business and PV Business as discontinued operations. The assets and liabilities of Target Business, PV Business, precious metals and Gumi facilities to be sold are classified as held for sale and have been aggregated and reported on separate lines of the consolidated balance sheets for all periods presented.

The following table discloses the results of operations reported as discontinued operations for years ended December 31, 2013, 2012, and 2011, respectively.

| (in thousands)                                 | 2013        | 2012       | 2011       |
|--|-------------|------------|------------|
| <b>Discontinued Operations:</b>                |             |            |            |
| Net sales                                      | \$ 162,366  | \$ 174,197 | \$ 232,375 |
| Earnings (loss) from discontinued operations   | (67,021)    | 30,478     | 23,731     |
| Income taxes on discontinued operations        | (539)       | (9,621)    | (9,318)    |
| Net (loss) income from discontinued operations | \$ (67,560) | \$ 20,857  | \$ 14,413  |

The following table reflects the summary of assets and liabilities held for sale as of December 31, 2013 and 2012, for Target Business and PV Business reported as discontinued operations and precious metals and Gumi facilities to be disposed within one year from December 31, 2013.

| (in thousands)                         | 2013       | 2012       |
|--|------------|------------|
| <b>Assets</b>                          |            |            |
| Accounts and notes receivable, net     | \$ 29,337  | \$ 25,949  |
| Inventories, net                       | 102,593    | 76,701     |
| Property, plant and equipment, net     | 158,862    | 208,273    |
| Other assets                           | 1,825      | 2,365      |
| Assets of discontinued operations      | \$ 292,617 | \$ 313,288 |
| <b>Liabilities</b>                     |            |            |
| Accounts payable and accrued expenses  | \$ 9,538   | \$ 8,414   |
| Short-term borrowings <sup>1</sup>     | 32,059     | -          |
| Other liabilities                      | 9,498      | 5,814      |
| Liabilities of discontinued operations | \$ 51,095  | \$ 14,228  |

<sup>1</sup> As of December 31, 2013, SCM's term loan debt was \$32,059 thousand, and variable interest rate is contracted. As of December 31, 2013, the weighted average rate was 2.08%. Due to the decision to shut down PV business, the term loan is immediately due and payable.

#### 4. Inventories

Inventories consist of the following:

| (in thousands)      | 2013      | 2012      |
|---------------------|-----------|-----------|
| Finished goods      | \$ 14,808 | \$ 13,879 |
| Semi-finished goods | 4,685     | 6,783     |
| Raw materials       | 17,823    | 21,511    |
| Work-in-process     | 768       | 1,046     |
| Auxiliary materials | 54,683    | 49,105    |
|                     | \$ 92,767 | \$ 92,324 |

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### 5. Other Current Assets

Other current assets consist of the following:

| (in thousands)            | 2013       | 2012       |
|---------------------------|------------|------------|
| Prepaid expenses          | \$ 79,659  | \$ 79,926  |
| Prepaid value added tax   | -          | 10,907     |
| Accrued income receivable | 4,165      | 17,434     |
| Restricted cash           | 24,703     | 28,145     |
| Other current assets      | 764        | 159        |
|                           | \$ 109,291 | \$ 136,571 |

### 6. Equity Method Investments

Equity method investments comprise the following:

| (in thousands)   | Ownership interest <sup>1</sup> | 2013     | 2012     |
|--|---------------------------------|----------|----------|
| Affiliated companies accounted for under the equity method |                                 |          |          |
| Corsam Technologies LLC                                    | 50%                             | \$ 2,352 | \$ 6,689 |

<sup>1</sup> This reflects the Company's direct ownership interests in the affiliated company. The Company does not have control of the entity.

During September 2009, the Company entered into an operating agreement with Corning. Pursuant to the operating agreement, the parties established Corsam Technologies LLC ("Corsam"), a new equity affiliate established to provide glass technology research for future product applications. The Company contributed \$124,000 thousand in cash and Corning contributed intellectual property with a corresponding value. In 2012, the Company and Corning each contributed an additional \$7,000 thousand. The Company and Corning each own 50% of the common stock of Corsam and Corning has agreed to provide research and development services to Corsam. The Company does not control Corsam as Corning maintains participating voting rights. In addition, Corsam has sufficient equity to finance its activities, the voting rights of investors in Corsam are considered substantive, and the risks and rewards of Corsam's research are shared only by those investors noted. As a result, the Company accounts for its investment in Corsam under the equity method of accounting for investments.

The Company's share of Corsam net losses of \$5,198 thousand, \$39,366 thousand and \$ 27,758 thousand for the years ended December 31, 2013, 2012, and 2011, respectively, has been recognized in equity losses of affiliated companies.

On December 31, 2013 and 2012, because of slow down of the photovoltaic industry, Corsam recorded \$7,697 thousand and \$49,719 thousand, respectively, of impairment loss related to its intellectual property which was initially contributed by Corning. The Company recorded its 50% share of such impairment charge totaling \$3,848 thousand

and \$24,860 thousand for the year ended December 31, 2013 and 2012, respectively.

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### 7. Property, Plant and Equipment

Property, plant and equipment comprise the following:

| (in thousands)                         | 2013         | 2012         |
|--|--------------|--------------|
| Building                               | \$ 1,744,579 | \$ 1,765,014 |
| Machinery and equipment                | 2,623,229    | 2,705,678    |
| Vehicle, tools, furniture and fixtures | 219,722      | 246,189      |
|  | 4,587,530    | 4,716,881    |
| Less: accumulated depreciation         | (1,964,996)  | (1,859,087)  |
|  | 2,622,534    | 2,857,794    |
| Land                                   | 258,031      | 254,788      |
| Construction-in-progress               | 455,851      | 531,451      |
|  | \$ 3,336,416 | \$ 3,644,033 |

Manufacturing equipment includes certain components of production equipment that are constructed with precious metals. At December 31, 2013 and 2012, the recorded amount of precious metals totaled \$939,692 thousand and \$942,187 thousand, respectively. Depletion expense for precious metals in the year ended December 31, 2013 and 2012 totaled \$11,049 thousand and \$18,862 thousand, respectively.

### 8. Other Non-current Assets

Other non-current assets consist of the following:

| (in thousands)                           | 2013       | 2012       |
|--|------------|------------|
| Deposits                                 | \$ 30,844  | \$ 28,424  |
| Available-for-sale marketable securities | 5,835      | 6,366      |
| Payment on long-term contract            | 132,435    | 195,645    |
| Other non-current assets                 | 13,934     | 13,269     |
|  | \$ 183,048 | \$ 243,704 |

### 9. Impairment Charges

In response to economic challenges and strategic alternatives, certain assets used for the production of glasses were committed to be abandoned before the end of their previously estimated useful lives based on management's decision to reduce the manufacturing capacity. As a result, a group of unusable assets was fully written off in 2012, and another group in 2013. Before their respective write-offs, the group of assets written off in 2012 had a net book value of \$27,294 thousand, while the group of assets written off in 2013 had a net book value of \$20,945 thousand. These amounts are included as part of cost of sales in the consolidated statements of income.

In December 2013, the Company discontinued development of Willow coater technology, a technology for touch panel. As a result, for the year ended December 31, 2013, the Company recorded a pre-tax impairment charge of

\$11,569 thousand for related long-lived assets associated with the development of Willow coating technology. These amounts are included as part of cost of sales in the consolidated statements of income.

The Company agreed with SCG to execute demolition and clean-up activities of a LCD processing building and certain office premises in Gumi plant. Accordingly, the Company recorded impairment charges totaling \$31,960 thousand to fully write-down the subject assets of demolition and clean-up in 2013. These amounts are included as part of cost of sales in the consolidated statements of income.

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On December 2, 2011, the Company decided to exit from the CRT glass business operated in SCM, and the manufacturing of the CRT glass was ceased in December 2011 in response to anticipated lower sales in 2012. An impairment charge was needed for asset dismantling and restoration costs and costs for special termination benefits. Total cash payments with this plan were expected to be approximately \$14,461 thousand with the majority of spending made in 2012. Accordingly, the Company recorded restructuring costs totaling \$14,461 thousand in accordance with ASC 420, Exit or Disposal Cost Obligations, in the year ended December 31, 2011. These amounts are included as part of selling and administrative expenses in the consolidated statements of income.

#### 10. Transactions with Related Parties

A summary of related party transactions and related receivable and payable balances as of December 31 is as follows:

| 2013 (1)<br>(in thousands)         | Sales <sup>4</sup> | Purchases <sup>5</sup> | Services<br>Expensed | Receivables | Payables  |
|------------------------------------|--------------------|------------------------|----------------------|-------------|-----------|
| <b>Samsung affiliates</b>          |                    |                        |                      |             |           |
| Samsung Display                    | \$ 1,597,601       | \$ -                   | \$ 2,475             | \$241,901   | \$ 281    |
| <b>Samsung C&amp;T Corporation</b> |                    |                        |                      |             |           |
|                                    | 1,170              | 79,460                 | 239                  | 266         | 11,859    |
| Samsung Engineering                | 208                | 5,882                  | 6,126                | -           | 6,968     |
| Samsung SDS                        | 3,233              | 10,631                 | 35,040               | -           | 14,129    |
| SCG                                | 100,197            | -                      | 2,910                | 38,010      | 1,187     |
| Others                             | 160,627            | 20,658                 | 39,423               | 10,742      | 6,337     |
|                                    | 1,863,036          | 116,631                | 86,213               | 290,919     | 40,761    |
| Corning                            | 161,131            | 36,912                 | 62,318               | 1,717       | 11,313    |
|                                    | \$ 2,024,167       | \$153,543              | \$148,531            | \$292,636   | \$ 52,074 |

(1) As of and for the year ended December 31, 2013, related parties sales of \$83,525 thousand, purchases of \$19 thousand and services expenses of \$1,653 thousand and related receivables of \$14,791 thousand and payables of \$1,567 thousand for discontinued operations are included in the above table.

| 2012 (2)<br>(in thousands)         | Sales <sup>4</sup> | Purchases <sup>5</sup> | Services<br>Expensed | Receivables | Payables |
|------------------------------------|--------------------|------------------------|----------------------|-------------|----------|
| <b>Samsung affiliates</b>          |                    |                        |                      |             |          |
| Samsung Display                    | \$ 2,231,298       | \$ 29,919              | \$ 2,312             | \$349,236   | \$ 521   |
| <b>Samsung C&amp;T Corporation</b> |                    |                        |                      |             |          |
|                                    | 22                 | 50,334                 | 286                  | 1           | 25,845   |
| Samsung Engineering                | 156                | 36,370                 | 147                  | 7,201       | 640      |
| Samsung SDS                        | 60                 | 71,945                 | 35,828               | -           | 27,829   |
| SCG                                | 69,779             | -                      | 1,211                | -           | -        |
| Others                             | 17,968             | 21,557                 | 53,296               | 7,412       | 17,417   |
|                                    | 2,319,283          | 210,125                | 93,080               | 363,850     | 72,252   |
| Corning                            | 126,041            | 79,691                 | 89,535               | 31,836      | 6,386    |

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|              |            |            |            |           |
|--------------|------------|------------|------------|-----------|
| \$ 2,445,324 | \$ 289,816 | \$ 182,615 | \$ 395,686 | \$ 78,638 |
|--------------|------------|------------|------------|-----------|

(2) As of and for the year ended December 31, 2012, related parties sales of \$98,271 thousand, purchases of \$195 thousand and services expenses of \$1,029 thousand and related receivables of \$12,692 thousand and payables of \$89 thousand for discontinued operations are included in the above table.

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| 2011 (3)<br>(in thousands) | Sales <sup>4</sup> | Purchases <sup>5</sup> | Services<br>Expensed | Receivables | Payables  |
|----------------------------|--------------------|------------------------|----------------------|-------------|-----------|
| Samsung affiliates         |                    |                        |                      |             |           |
| Samsung Electronics        | \$ 2,580,173       | \$ -                   | \$ 8,677             | \$317,693   | \$ 5,480  |
| Samsung C&T Corporation    |                    |                        |                      |             |           |
|                            | 27                 | 66,165                 | 496                  | 2           | 13,790    |
| Samsung Engineering        | 1,034              | 41,619                 | 1,279                | 53          | 6,881     |
| Samsung SDS                | 15                 | 13,923                 | 19,844               | 6           | 8,928     |
| Others                     | 62,234             | 23,937                 | 98,208               | 5,091       | 28,638    |
|                            | 2,643,483          | 145,644                | 128,504              | 322,845     | 63,717    |
| Corning                    | 108,916            | 102,037                | 226,441              | 1,039       | 5,478     |
|                            | \$ 2,752,399       | \$247,681              | \$354,945            | \$323,884   | \$ 69,195 |

(3) As of and for the year ended December 31, 2011, related parties sales of \$84,379 thousand, purchases of \$8,885 thousand and services expenses of \$1,327 thousand and related receivables of \$18,165 thousand and payables of \$96 thousand for discontinued operations are included in the above table.

(4) Transfers of machinery and equipment to related parties including SCG, Samsung Electronics, Samsung SDS and Samsung Fine Chemicals are included.

(5) Purchases of property, plant and equipment are included.

In the normal course of business, the Company sells its products to Samsung Display and Corning, purchases semi-finished goods from Corning and purchases property, plant and equipment from Samsung affiliates and Corning. The Company also obtains services from Samsung affiliated companies. In addition, the Company paid a 3% royalty on net sales amounts of certain products to Corning. The royalty rate has been lowered from 6% to 3% under the revised royalty agreement effective from December 1, 2011.

Samsung Display was established on April 1, 2012 through a spin-off of Samsung Electronics' LCD division. As a result, the Company's shareholder has been changed to Samsung Display and the existing contractual relationship with Samsung Electronics was fully succeeded to Samsung Display. As of and for the year ended December 31, 2012, Samsung Display represents the sum of transactions and balances with Samsung Electronics and Samsung Display.

As of December 31, 2013 and 2012, the Company deposited the severance plan assets to Samsung Fire & Marine Insurance Co., Ltd. of \$100,800 thousand and \$71,885 thousand, respectively.

Effective in January 2012, the Company signed a five-year renewal of its long term LCD supply contract with Samsung Electronics.

In April 2012, Corning and Samsung Display formed SCG, a new affiliate of the Company established to manufacture organic light emitting diode glasses. The Company entered into a Shared Service Agreement and a Leasing Agreement with SCG and charges relevant fees on a cost basis with a reasonable mark-up to SCG. In addition, the Company sold certain inventories, machinery and equipment to SCG amounting to \$49,795 thousand and \$52,900 thousand for the year ended December 31, 2013 and 2012, respectively.

In December 2013, the Company and Samsung Electronics signed a sales and purchase agreement over Suwon R&D center at the amount of \$138,076 thousand. The transaction completed on December 13, 2013. There was no gains or losses incurred as a result of the transaction.

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## 11. Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value in applying generally accepted accounting principles, and require disclosures about fair value measurements. The accounting standards also identify two kinds of inputs that are used to determine the fair value of assets and liabilities: observable and unobservable. Observable inputs are based on market data or independent sources while unobservable inputs are based on the Company's market assumptions. Once inputs have been characterized, the inputs are prioritized into one of three broad levels used to measure fair value as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices that are observable for the asset or liabilities, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Fair value standards apply whenever an entity is measuring fair value under other accounting pronouncements that require or permit fair value measurement and require the use of observable market data when available. As of December 31, 2013 and 2012, the Company did not have any financial assets or liabilities that were measured using unobservable (or Level 3) inputs.

As of December 31, 2013 and 2012, the Company's financial assets consisted of available-for-sale securities. These financial assets are measured at fair value and are classified within the Level 1 valuation hierarchy.

The Company's available for sale investments include equity investments with a fair value of \$5,835 thousand and \$6,366 thousand at December 31, 2013 and 2012, respectively that are traded in active market. They are measured at fair value using closing stock prices from active markets.

Certain financial instruments that are not carried at fair value on the balance sheets are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. These instruments include cash and cash equivalents, short-term financial instruments, severance plan assets, accounts and notes receivable, prepaid expenses, accounts payable, accrued liabilities, and short-term borrowing.

## 12. Income Taxes

The Company's income tax expenses are composed of domestic and foreign income taxes depending on the relevant tax jurisdiction.

Income tax expense consists of the following:

| (in thousands)               | 2013       | 2012       | 2011       |
|------------------------------|------------|------------|------------|
| <b>Current</b>               |            |            |            |
| Domestic (Republic of Korea) | \$ 253,319 | \$ 285,320 | \$ 499,059 |
| Foreign                      | -          | -          | -          |
| Total current                | 253,319    | 285,320    | 499,059    |

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|                                       |            |            |            |
|---------------------------------------|------------|------------|------------|
| Deferred                              |            |            |            |
| Domestic (Republic of Korea)          | (29,817)   | 16,332     | (21,829)   |
| Foreign                               | -          | -          | -          |
| Total deferred                        | (29,817)   | 16,332     | (21,829)   |
| Income taxes on continuing operations | \$ 223,502 | \$ 301,652 | \$ 477,230 |

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The following table reconciles the expected amount of income tax expense based on consolidated statutory rates to the actual amount of taxes recorded by the Company:

| (in thousands)                        | 2013       | 2012       | 2011       |
|---------------------------------------|------------|------------|------------|
| Expected taxes at statutory rate      | \$ 227,265 | \$ 404,197 | \$ 611,161 |
| Tax exemption for foreign investment  | -          | (107,599)  | (167,302)  |
| Tax rate changes                      | -          | -          | 29,633     |
| Tax credits, net of surtax effect     | -          | (1,032)    | (13,737)   |
| Others, net                           | (3,763)    | 6,086      | 17,475     |
| Income taxes on continuing operations | \$ 223,502 | \$ 301,652 | \$ 477,230 |
| Effective tax rate                    | 23.80%     | 18.06%     | 18.44%     |

The statutory income tax rate of the Company, including tax surcharges, is approximately 24.2%, but the effective income tax rate on continuing operation is 23.8%, 18.06% and 18.44% for 2013, 2012 and 2011, respectively, primarily due to tax exemption benefits for a foreign invested company under the Korean Tax Preference Control Law (“TPCL”). In accordance with the TPCL and the approval of the Korean government, the Company was fully exempt from the corporate income taxes on the taxable income arising from the sales of manufactured goods in proportion to the percentage of qualified foreign shareholder’s equity until 2003 and 50% exemption for the subsequent two years. In 2006, the Company issued additional shares to extend the tax exemption period. As a result, the Company was fully exempt from corporate income taxes until 2010, and thereafter was subject to a 50% tax exemption for a period of 2 years to 2012.

In November 2010, the NTS commenced a review of the Company’s 2008 tax year and a review of the SSC 2006 tax year. In April 2011, the tax review by the NTS was closed without claiming additional taxes for adjustment.

The corporate income tax rates including resident tax surcharge is a) 11 % on the taxable income of up to 0.2 billion won, b) 22% over taxable income exceeding 0.2 billion won up to 20 billion won, and c) 24.2% for the taxable income exceeding 20 billion won. The Company recognized its deferred income tax assets and liabilities as of December 31, 2013 based on the enacted future tax rates.

The primary components of the temporary differences that gave rise to the Company’s deferred income tax assets and liabilities were as follows:

| (in thousands)                       | 2013      | 2012   |
|--------------------------------------|-----------|--------|
| Deferred income tax assets           |           |        |
| Property, plant and equipment        | \$ 11,466 | \$ 69  |
| Accrued bonus payables               | 2,557     | 3,625  |
| Other current liabilities            | 398       | 794    |
| Equity method investments            | 50,887    | 37,618 |
| Other                                | 3,289     | 1,067  |
| Total tax deferred income tax assets | 68,597    | 43,173 |
| Deferred income tax liabilities      |           |        |

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|   |              |              |
|---|--------------|--------------|
| Property, plant and equipment, intangible | (270,576)    | (265,746)    |
| Reserve for technology development        | (6,898)      | (13,622)     |
| Available-for-sale securities             | (1,385)      | (1,513)      |
| Other                                     | 1,686        | (7,434)      |
| Total tax deferred income tax liabilities | (277,173)    | (288,315)    |
| Net deferred income tax liabilities       | \$ (208,576) | \$ (245,142) |

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A valuation allowance on deferred income tax assets is recognized when it is more likely than not that the deferred income tax assets will not be realized. Realization of the future tax benefit related to the deferred income tax assets is dependent on many factors, including the Company's ability to generate taxable income within the period during which the temporary differences reverse, the outlook for the economic environment in which the Company operates, and the overall future industry outlook.

The Company applies the provisions of ASC 740, Income taxes. The Company believes that it is more likely than not, based on the technical merits of a tax position, that the Company is entitled to economic benefits resulting from positions taken in its income tax returns.

The Company files income tax return in Korea and various other jurisdictions with varying statutes of limitations. Years open to examination by tax authorities in Korea are 2009 and subsequent tax years.

### 13. Shareholders' Equity

The components of and changes in shareholders' equity are as follows:

| (in thousands)   | 2013      | 2012        | 2011      |
|--|-----------|-------------|-----------|
| Preferred Stock  | \$ 350    | \$ 350      | \$ 350    |
| Common Stock   | 176,700   | 176,700     | 176,700   |
| Additional Paid-in Capital                                     | 312,114   | 312,114     | 312,114   |
| Retained Earnings:   |           |             |           |
| Balance at the beginning of year                               | 6,040,493 | 6,611,603   | 5,538,151 |
| Net income attributable to Samsung Corning Precision Materials | 649,351   | 1,389,557   | 2,060,770 |
| Dividends paid to preferred shareholders                       | (1,103)   | (3,288)     | (2,786)   |
| Dividends paid to common shareholders                          | (939,453) | (1,957,379) | (984,532) |
| Balance at end of year   | 5,749,288 | 6,040,493   | 6,611,603 |
| Accumulated Other Comprehensive Income (loss):                 |           |             |           |
| Balance at the beginning of year                               | 185,480   | (400,492)   | (98,600)  |
| Other comprehensive income, net of tax                         |           |             |           |
| Foreign currency translation adjustment                        | 105,155   | 583,679     | (278,649) |
| Unrealized net gain on available for sale securities           | (557)     | 2,293       | (23,243)  |
| Balance at end of year   | 290,078   | 185,480     | (400,492) |
| Total Samsung Corning Precision Materials shareholders' equity | 6,528,530 | 6,715,137   | 6,700,275 |
| Noncontrolling interests:                                      |           |             |           |
| Balance at the beginning of year                               | 12,177    | 11,214      | 35,487    |
| Net (loss) income attributable to noncontrolling interests     | (1,299)   | (116)       | 1,873     |
| Cash dividend to noncontrolling interests                      | (33)      | (64)        | (67)      |

|  |              |              |              |
|--|--------------|--------------|--------------|
| Acquisition of subsidiary's stock                          | -            | -            | (26,074)     |
| OCI attributable to noncontrolling interest,<br>net of tax |              |              |              |
| Foreign currency translation adjustment                    | (665)        | 1,143        | (5)          |
| Balance at end of year                                     | 10,180       | 12,177       | 11,214       |
| Total equity   | \$ 6,538,710 | \$ 6,727,314 | \$ 6,711,489 |

#### Preferred Stock

There were 41,107 shares of non-voting preferred stock with a par value of \$8.51 issued and outstanding as of December 31, 2013 and 2012. Each share is entitled to non-cumulative dividends at the rate of 5% on par value. In addition, if the dividend ratio of common stock exceeds that of preferred stock, the additional dividend on preferred stock may be declared by a resolution of the general shareholders' meeting.

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### Retained Earnings

Retained earnings as of December 31, 2013 and 2012 comprised of the following:

| (in thousands)                                | 2013                | 2012                |
|---|---------------------|---------------------|
| <b>Appropriated</b>                           |                     |                     |
| Legal reserve                                 | \$ 82,339           | \$ 82,339           |
| Reserve for business development              | 30,800              | 30,800              |
| Reserve for research and manpower development | 51,733              | 77,600              |
| Voluntary reserve                             | 4,157               | 4,157               |
|   | 169,029             | 194,896             |
| <b>Unappropriated</b>                         | <b>5,580,259</b>    | <b>5,845,597</b>    |
|   | <b>\$ 5,749,288</b> | <b>\$ 6,040,493</b> |

#### Legal Reserve

The Commercial Code of the Republic of Korea requires the Company to appropriate a portion of the retained earnings as a legal reserve equal to a minimum of 10% of its cash dividends until such reserve equals 50% of its capital stock. The reserve is not available for dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, through resolution by the Company's shareholders.

#### Reserve for Business Development

Pursuant to the Corporate Income Tax Law of Korea, the Company is allowed to appropriate a portion of the retained earnings as a reserve for business development. This reserve is not available for dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any, through resolution by the Company's shareholders.

#### Reserve for Research and Manpower Development

Pursuant to the former Korean Tax Exemption and Reduction Control Law and the Korean Tax Preference Control Law, the Company appropriates a portion of the retained earnings as a reserve for research and manpower development. This reserve is not available for dividends until it is used for the specified purpose or reversed.

#### Voluntary Reserve

The Company appropriates a certain portion of retained earnings pursuant to shareholder resolution as a voluntary reserve. This reserve may be reversed and transferred to unappropriated retained earnings by the resolution of shareholders and may be distributed as dividends after reversal.

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## 14. Accumulated Other Comprehensive Income

A summary of changes in the components of accumulated other comprehensive income (loss), after tax, is as follows:

| (in thousands)   | Unrealized<br>Gains and<br>Losses on<br>Available-for-<br>sale securities | Foreign<br>currency<br>translation<br>adjustment | Total        |
|--|---|--|--------------|
| Balances at December 31, 2010                                    | \$ 25,089   | \$ (123,689)                                     | \$ (98,600)  |
| Other comprehensive income before reclassifications              | 198   | (278,649)  | (278,451)    |
| Amounts reclassified from accumulated other comprehensive income | (23,441)  | -  | (23,441)     |
| Net current-period other comprehensive income                    | (23,243)  | (278,649)  | (301,892)    |
| Balances at December 31, 2011                                    | \$ 1,846  | \$ (402,338)                                     | \$ (400,492) |
| Other comprehensive income before reclassifications              | 2,293   | 583,679  | 585,972      |
| Amounts reclassified from accumulated other comprehensive income | -   | -  | -            |
| Net current-period other comprehensive income                    | 2,293   | 583,679  | 585,972      |
| Balances at December 31, 2012                                    | \$ 4,139  | \$ 181,341                                       | \$ 185,480   |
| Other comprehensive income before reclassifications              | (557)   | 105,155  | 104,598      |
| Amounts reclassified from accumulated other comprehensive income | -   | -  | -            |
| Net current-period other comprehensive income                    | (557)   | 105,155  | 104,598      |
| Balances at December 31, 2013                                    | \$ 3,582  | \$ 286,496                                       | \$ 290,078   |

A summary of reclassification out of accumulated other comprehensive income by component is as follows:

|   | 2013 | 2012 | 2011      | Affected line item<br>in the consolidated<br>statements of income |
|---|------|------|-----------|---|
| Realized gains on available for sale securities | \$ - | \$ - | \$ 30,924 | Other income, net   |
|   | -    | -    | (7,483)   | Tax expense   |
|   | \$ - | \$ - | \$ 23,441 | Net of tax  |

15. Commitments and Contingencies

Credit Facilities

The Company has an unused credit facility totaling \$161,568 thousand and \$148,209 thousand at December 31, 2013 and 2012, respectively, under this facility as of and for the years ended December 31, 2013 and 2012.

Business and Credit Risk Concentration

The Company sells its products on a credit basis to its customers including certain related parties. Management estimates the collectability of accounts receivable based on the financial condition of the customers and prevailing economic trends. Based on management's estimates, the Company established allowances for doubtful accounts receivable which management believes are adequate. Concentrations of credit risk with respect to accounts receivable are limited to the credit worthiness of the Company's customers. Major customers of the Company are domestic TFT-LCD makers incorporated in Korea. Trade accounts receivables from these three major customers are 96% and 93% of total trade accounts receivable of the Company as of December 31, 2013 and 2012, respectively, and revenues from these three major customers constitute 92%, 91% and 93% of total revenues of the Company for the years ended December 31, 2013, 2012 and 2011, respectively.

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#### Pending Litigation

Based on the agreement entered on August 24, 1999 with respect to Samsung Motor Inc.'s ("SMI") bankruptcy proceedings, Samsung Motor Inc.'s creditors ("the Creditors") filed a civil action against Mr. Kun Hee Lee, former chairman of the Company, and 28 Samsung Group affiliates including the Company under joint and several liability for failing to comply with such agreement. Under the suit, the Creditors have sought 2,450 billion won (approximately \$1.95 billion) for loss of principal on loans extended to SMI, a separate amount for breach of the agreement, and an amount for default interest. Samsung Life Insurance Co., Ltd. ("SLI") completed its Initial Public Offering ("IPO") on May 7, 2010. After disposing 2,277,787 shares and paying the principal balance owed to the Creditors, 878 billion won (approximately \$ 0.80 billion) was deposited in to an escrow account. That remaining balance was to be used to pay the Creditors interest due to the delay in the SLI IPO. On January 11, 2011, the Seoul High Court ordered Samsung Group affiliates to pay 600 billion won (approximately \$ 0.53 billion) to the Creditors and pay 5% annual interest for the period between May 8, 2010 and January 11, 2011, and pay 20% annual interest for the period after January 11, 2011 until the amounts owed to the Creditors are paid. In accordance with the Seoul High Court order, 620.4 billion won (which includes penalties and interest owed) was paid to the Creditors from the funds held in escrow during January 2011. On February 7, 2011, the Samsung Group affiliates and the Creditors appealed the Seoul High Court's ruling to the Korean Supreme Court and the appeal is currently in progress. The Company has not contributed to any payment related to these disputes, and has concluded that no provision for loss related to this matter should be reflected in the Company's consolidated financial statements at December 31, 2013.

#### 16. Subsequent Event

On October 22, 2013, Corning announced that it has signed a series of strategic and financial agreements with Samsung Display, to strengthening the product and technology collaborations between the two companies. On January 15, 2014, the deal transactions closed and resulted in:

- On January 15, 2014, the Company entered into a 15 year \$1,902,359 thousand borrowing from Corning Luxembourg S.ar.l. and the interest rate is 8.0% per annum.
- On January 15, 2014, the Company repurchased shares of \$1,902,359 thousand from Samsung Display. As a result, Corning obtained full ownership of the Company, formerly an unconsolidated equity venture with Samsung Display.
- Amendment to the agreement on a long-term LCD display glass pricing was signed between Corning and Samsung Display on January 15, 2014. The amendment is effective for ten years, accordingly, the term of the TFT-LCD glass substrate long-term supply agreement, effective as of January 1, 2012 will also be extended from January 1, 2014 to December 31, 2023.
- On January 17, 2014, the Company has entered into the Business Transfer Agreement with SCG to transfer the Target business at Gumi. On February 1, 2014, the transaction closed. The expected proceeds from this transaction are \$158,341 thousand and the expected pre-tax gains are \$16,786 thousand.
- On January 21, 2014, the Company has entered into the Interest Transfer Agreement of Corsam with SCG to transfer investment in equity of Corsam. The transaction closed on February 1, 2014. No gain and loss expected.

- On January 23, 2014, the Company has entered into the Real Property Sale and Purchase Agreement with SCG to transfer the Gumi facilities. On February 1, 2014, the transaction closed. The expected proceeds from this transaction are \$83,998 thousand and the expected pre-tax gains are \$16,530 thousand.

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