Understanding Corning Incorporated 2021 Disclosures Related to Translation Hedging Program

August 1, 2022
Corning Incorporated

Use of Core Performance (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 excludes/includes amounts or that have the effect of excluding/including amounts reflected in the comparable measure calculated and presented in accordance with GAAP in the statement of income or statement of cash flows.

- Core Performance net sales, Core Performance equity earnings of affiliated companies and Core Earnings are non-GAAP financial measures utilized by our management to analyze financial performance without the impact of items that are driven by general economic conditions and events that do not reflect the underlying fundamentals and trends in the Company's operations. The reconciliation between these non-GAAP measures and their most directly comparable GAAP measure can be found on the company's investor relations website.

© 2022 Corning Incorporated

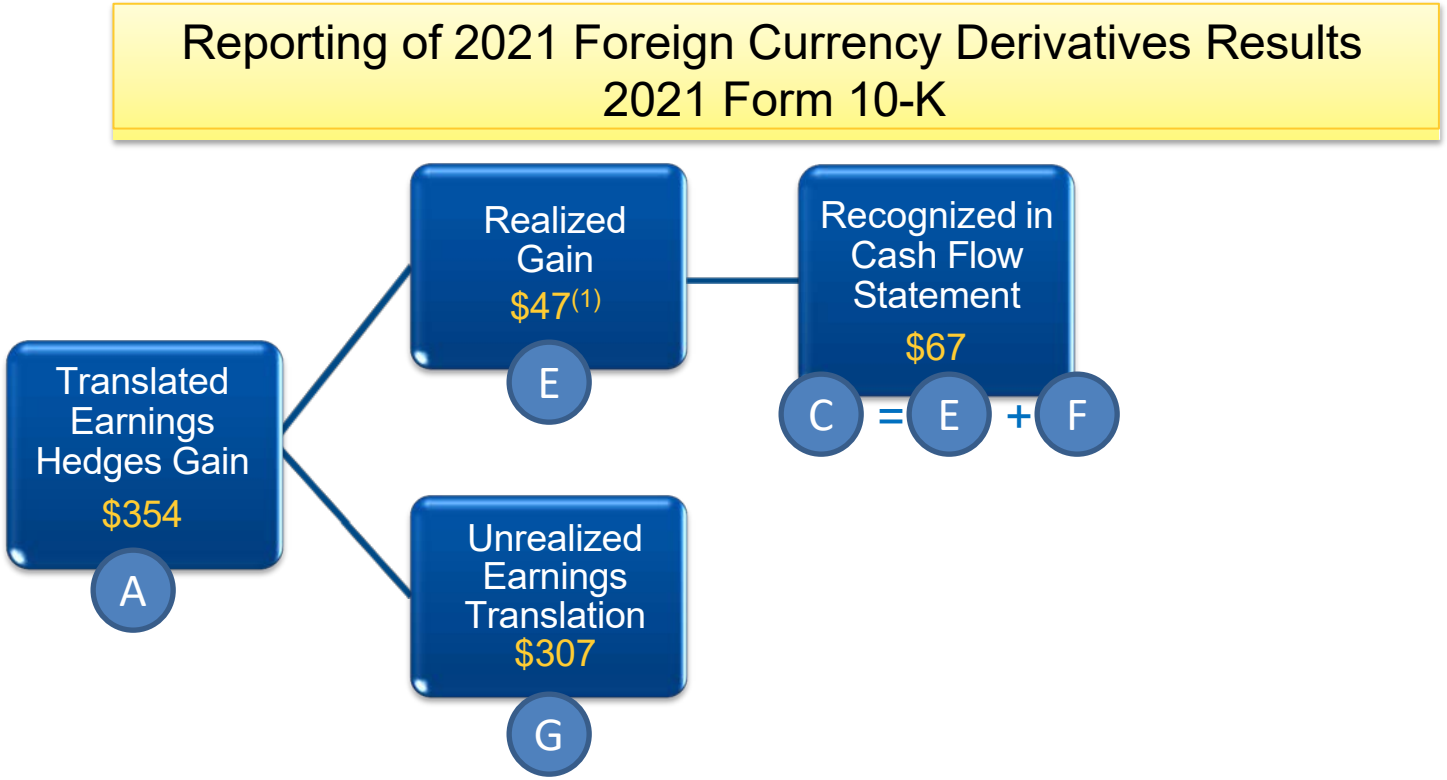
Introduction

- Translated Earnings Contracts mitigate impact of currency exchange rate movements on earnings and cash flow
  - Hedge contracts settled in any given quarter substantially offset the change in translated earnings and cash flow in that quarter
- Core measures (non-GAAP) exclude the impact of changes in foreign exchange rates on business results by using constant currencies for Display Technologies, Environmental Technologies, Specialty Materials and Life Sciences segments:
  - Japanese Yen ¥107
  - Chinese Yuan ¥6.7
  - Euro €.81
  - Korean Won ₩1,175
  - New Taiwan Dollar NT$31
- GAAP accounting results can include large unrealized gains/losses in any given quarter which are not representative of our business results
  - Hedge portfolio revalued to appropriate period-end currency rates; difference from prior quarter value recorded in P&L (“mark to market” adjustment is non-cash)

© 2022 Corning Incorporated

Flow of FX Derivatives in Financial Disclosures

- Gains/Losses on FX derivatives flow through multiple parts of our financial disclosures:



(1) Includes $20M pre-tax realized loss (a non-cash item) related to the expiration of option contracts for the year ended December 31, 2021. F

© 2022 Corning Incorporated

Flow of Information through our 2021 Form 10-K

1) Consolidated Statements of Income provides the “Translated earnings contract gain (loss), net” (2021 Form 10-K, page 65) A
2) "Translated earnings contract (gain) loss” is an adjustment that is excluded from the “Cash Flows from Operating Activities” (2021 Form 10-K, page 68) B
3) “Realized gains on translated earnings contracts” are reported as cash inflows in “Cash Flows from Investing Activities” (2021 Form 10-K, page 68) C
4) The impact of exchange rate movements on business earnings is quantified in the constant currency adjustment of the Reconciliation of Non-GAAP measures (2021 Form 10-K, page 33) D

© 2022 Corning Incorporated

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

2021 ($ millions)	Before Tax Income		Net Income
Constant Currency Adjustment	$87	D	$76
Realized gains on translated earnings contract	$67	C	$51
Hedge Effectiveness	**$20**		**$25**

2021 ($ millions)	Before Tax Income		Net Income
Realized Translation	$47	E	$36
Reverse Option/Premium Non-Cash Item [1]	$20	F	$15
Total Cash from Realized Translation	**$67**	C	**$51**

[1] Footnote 1 (2021 Form 10-K, page 28)

© 2022 Corning Incorporated

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

Consolidated Statements of Income — **Corning Incorporated and Subsidiary Companies**

(In millions, except per share amounts)	Year ended December 31, 2021	2020	2019
Net sales	$ 14,082	$ 11,303	$ 11,503
Cost of sales	9,019	7,772	7,468
Gross margin	5,063	3,531	4,035
Operating expenses:			
Selling, general and administrative expenses	1,827	1,747	1,585
Research, development and engineering expenses	995	1,154	1,031
Amortization of purchased intangibles	129	121	113
Operating income	2,112	509	1,306
Equity in earnings (losses) of affiliated companies (Note 3)	35	(25)	17
Interest income	11	15	21
Interest expense	(300)	(276)	(221)
Translated earnings contract gain (loss), net (Note 15)	354	(38)	248
Transaction-related gain, net (Note 4)		498	
Other income (expense), net	185	(60)	(155)
Income before income taxes	2,397	623	1,216
Provision for income taxes (Note 8)	(491)	(111)	(256)
Net income attributable to Corning Incorporated	$ 1,906	$ 512	$ 960

A

© 2022 Corning Incorporated

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

Translated earnings contract gain (loss), net

Included in the line item translated earnings contract gain (loss), net, is the impact of foreign currency contracts which hedge our translation exposure arising from movements in the Japanese yen, South Korean won, new Taiwan dollar, euro, Chinese yuan and British pound and its impact on our net income.

The following table provides detailed information on the impact of our translated earnings contracts gains and losses for the years ended December 31, 2021, 2020 and 2019:

(in millions)	Income (loss) before tax	Net income (loss)	(Loss) income before tax	Net (loss) income	Income before tax	Net income
	2021		2020		2021 vs. 2020	
Hedges related to translated earnings:						
Realized gain (loss), net (1)	$ **47**	**36**	$ (8)	$ (5)	$ 55	$ 41
Unrealized gain (loss), net (2)	**307**	**237**	(30)	(24)	337	261
Total translated earnings contract gain (loss), net	$ **354**	$ **273**	$ (38)	$ (29)	$ 392	$ 302
	2020		2019		2020 vs. 2019	
Hedges related to translated earnings:						
Realized (loss) gain, net (1)	$ (8)	$ (5)	$ 18	$ 14	$ (26)	$ (19)
Unrealized (loss) gain, net (2)	(30)	(24)	230	179	(260)	(203)
Total translated earnings contract (loss) gain, net	$ (38)	$ (29)	$ 248	$ 193	$ (286)	$ (222)

(1) Includes pre-tax realized losses related to the expiration of option contracts for the year ended December 31, 2021, 2020, [illegible] of $20 million, $20 million and $37 million, respectively. These amounts were reflected in operating activities in the consolidated statements of cash flows.

(2) The impact to income was primarily driven by Japanese yen, South Korean won, and euro-denominated hedges of translated earnings.

© 2022 Corning Incorporated

The gain/loss on translated earnings hedges do not impact operating cash flows

Consolidated Statements of Cash Flows	Corning Incorporated and Subsidiary Companies		
	Year ended December 31,		
(In millions)	**2021**	2020	2019
Cash Flows from Operating Activities:			
Net income	$ **1,906**	$ 512	$ 960
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**1,352**	1,399	1,390
Amortization of purchased intangibles	**129**	121	113
Loss on disposal of assets	**57**	138	123
Severance (reversals) charges	**(13)**	148	63
Severance payments	**(26)**	(147)	(28)
Share-based compensation expense	**190**	207	56
Equity in (earnings) losses of affiliated companies	**(35)**	25	(17)
Translation (gain) loss on Japanese yen-denominated debt	**(180)**	86	3
Dividends received from affiliated companies	**8**	1	106
Deferred tax provision (benefit)	**16**	(20)	(191)
Pension plan contributions	**(24)**	(221)	(2)
Translated earnings contract (gain) loss	**(354)**	38	(248)
Unrealized translation loss (gain) on transactions	**77**	(133)	33
Asbestos claim payments		(130)	(50)
Tax assessment refunds		101	
Asset impairment		217	
Transaction-related gain, net		(498)	
Gain on investment		(107)	
Changes in assets and liabilities:			
Trade accounts receivable	**(54)**	(274)	48
Inventories	**(103)**	423	(298)
Other current assets	**(224)**	(25)	(300)
Accounts payable and other current liabilities	**806**	139	31
Customer deposits and incentives	**97**	238	89
Deferred income	**(116)**	(46)	
Other, net	**(97)**	(12)	150
Net cash provided by operating activities	**3,412**	2,180	2,031

B

© 2022 Corning Incorporated

Realized gain/loss on translated earnings hedges are shown within "Cash Flows from Investing Activities" in the Statements of Cash Flows

Cash Flows from Investing Activities:			
Capital expenditures	**(1,637)**	(1,377)	(1,978)
Proceeds from sale or disposal of assets	**17**	37	
Proceeds from sale of business	**103**		
Proceeds from and investment in unconsolidated entities, net	**84**	(28)	(26)
Sale of equipment for related party			78
Realized gains on translated earnings contracts	**67**	12	55
Other, net	**(53)**	46	(20)
Net cash used in investing activities	**(1,419)**	(1,310)	(1,891)

C

© 2022 Corning Incorporated

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

The following table reconciles our non-GAAP financial measures to the most directly comparable GAAP financial measure (amounts in millions except percentages and per share amounts):

	Year ended December 31, 2021					
	Net Sales	Equity earnings	Income before income taxes	Net income	Effective tax rate (a)	Earnings per share
As reported	**$ 14,082**	**$ 35**	**$ 2,397**	**$ 1,906**	**20.5%**	**$ 1.28**
Preferred stock redemption (b)						**0.90**
Subtotal	**14,082**	**35**	**2,397**	**1,906**	**20.5%**	**2.18**
Constant-currency adjustment (1)	38	3	87	76		0.09
Translation gain on Japanese yen-denominated debt (2)			(180)	(138)		(0.16)
Translated earnings contract gain, net (3)			(354)	(273)		(0.32)
Acquisition-related costs (4)			159	123		0.15
Discrete tax items and other tax-related adjustments (5)				(24)		(0.03)
Pension mark-to-market adjustment (6)			32	25		0.03
Restructuring, impairment and other charges and credits (7)			110	78		0.09
Litigation, regulatory and other legal matters (8)			16	27		0.03
Preferred stock conversion (9)			17	17		0.02
Bond redemption loss (10)			31	23		0.03
Loss on investment (11)			23	17		0.02
Gain on sale of business (12)			(54)	(46)		(0.05)
Core performance measures	$ 14,120	$ 38	$ 2,284	$ 1,811	20.7%	$ 2.07

(a) Based upon statutory tax rates in the specific jurisdiction for each event.

(b) On January 16, 2021, the Preferred Stock became convertible into 115 million Common Shares, in whole or in part, at the option of the holder, Samsung Display Co., Ltd. ("SDC"). On April 5, 2021, Corning and SDC executed a Share Repurchase Agreement ("SRA"). Pursuant to the SRA, the Preferred Stock was converted into 115 million Common Shares. Corning immediately repurchased 35 million of the converted Common Shares and excluded them from the weighted-average common shares outstanding for the calculation of the Company's basic and diluted earnings per share. The redemption of these Common Shares resulted in an $803 million reduction of retained earnings which reduced the net income available to common shareholders.

* See Appendix for description of adjustments

© 2022 Corning Incorporated

Appendix

© 2022 Corning Incorporated

Items Excluded from GAAP Measures

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

(1) Constant-currency adjustment: Because a significant portion of segment revenue and expenses are denominated in currencies other than the U.S. dollar, management believes it is important to understand the impact on core net income of translating these currencies into U.S. dollars. Our Display Technologies and Specialty Materials segments sales and net income are primarily denominated in Japanese yen, but are also impacted by the South Korean won, Chinese yuan, and new Taiwan dollar. Environmental Technologies and Life Science segment sales and net income are primarily impacted by the euro and Chinese yuan. Presenting results on a constant-currency basis mitigates the translation impact and allows management to evaluate performance period over period, analyze underlying trends in our businesses, and establish operational goals and forecasts. We establish constant-currency rates based on internally derived management estimates which are closely aligned with the currencies we have hedged.

Constant-currency rates are as follows:

Currency	Japanese yen	Korean won	Chinese yuan	New Taiwan dollar	Euro
Rate	¥107	₩1,175	¥6.7	NT$31	€.81

(2) Translation (gain) loss on Japanese yen-denominated debt: We have excluded the gain or loss on the translation of our yen-denominated debt to U.S. dollars.

(3) Translated earnings contract (gain) loss, net: We have excluded the impact of the realized and unrealized gains and losses of our Japanese yen, South Korean won, Chinese yuan, euro and new Taiwan dollar-denominated foreign currency hedges related to translated earnings, as well as the unrealized gains and losses of our British pound-denominated foreign currency hedges related to translated earnings.

(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: For 2021, 2020 and 2019, these include discrete period tax items such as changes in tax law, the impact of tax audits, changes in tax reserves, changes in judgement about the realizability of certain deferred tax assets, net Subpart F income, and other tax-related adjustments.

(6) Pension mark-to-market adjustment: Defined benefit pension mark-to-market gains and losses, which arise from changes in actuarial assumptions and the difference between actual and expected returns on plan assets and discount rates.

(7) Restructuring, impairment and other charges and credits: This amount includes restructuring, impairment losses and other charges and credits, as well as other expenses, primarily accelerated depreciation and asset write-offs, which are not related to continuing operations and are not classified as restructuring expense. During the third quarter of 2021, we recorded asset write-offs and charges related to facility repairs resulting from the impact of power outages. The Company is pursuing recoveries under its applicable property insurance policies.

(8) Litigation, regulatory and other legal matters: Includes amounts that reflect developments in commercial litigation, intellectual property disputes, adjustments to our estimated liability for environmental-related items and other legal matters.

(9) Preferred stock conversion: This amount is the put option from the Share Repurchase Agreement with Samsung Display Co., Ltd.

© 2022 Corning Incorporated

Items Excluded from GAAP Measures (continued)

(10) Bond redemption loss: Amount represents premiums on redemption of debentures.
(11) (Loss) gain on investment: Amount represents the gain or loss recognized on investment due to mark-to-mark adjustments for the change in fair value or the disposition of the investment.
(12) Gain on sale of business: Amount represents the gain recognized for the sale of certain businesses.
(13) Equity in losses of affiliated companies: These adjustments relate to costs not related to continuing operations of our affiliated companies, such as restructuring, impairment losses, inventory adjustments, and other charges and credits and settlements under "take-or-pay" contracts. The year ended December 31, 2020 includes the Company's share of a loss related to the sale of a business.
(14) Transaction-related gain, net: Amount represents the gain recorded on a previously held equity investment in HSG.
(15) Cumulative adjustment related to customer contract: The negative impact of a cumulative adjustment recorded during the first quarter of 2020 to reduce revenue by $105 million. The adjustment was associated with a previously recorded commercial benefit asset, reflected as a prepayment, to a customer with a long-term supply agreement that substantially exited its production of LCD panels.

© 2022 Corning Incorporated

CORNING