

CORNING INC /NY  
Form 10-K  
February 12, 2016

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, 2015

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 ☒

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

Yes ☒ x

No ☐ o

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 ☒ x

No ☐ o

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. ☒ x

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 ☒ x  
filer

Accelerated filer ☐ o

Non-accelerated filer ☐ o (Do not check if a smaller reporting  
company)

Smaller reporting ☐ o  
company

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

Yes ☐ o

No ☒ x

As of June 30, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$24 billion based on the \$19.73 price as reported on the New York Stock Exchange.

There were 1,112,837,205 shares of Corning's common stock issued and outstanding as of January 31, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement dated March 15, 2016, and filed for the Registrant's 2016 Annual Meeting of Shareholders are incorporated into Part III of this Annual Report on Form 10-K, 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 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. We succeed through sustained investment in research and development, a unique combination of material and process innovation, and close collaboration with customers to solve tough technology challenges. Corning operates in five reportable segments: Display Technologies, Optical Communications, Environmental Technologies, Specialty Materials and Life Sciences, and manufactures and processes products at approximately 89 plants in 17 countries.

Display Technologies Segment

Corning’s Display Technologies segment manufactures glass substrates for 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 highly automated process yields glass substrates with a pristine surface and excellent thermal dimensional stability and uniformity – essential attributes for the production of large, high performance LCDs. Corning’s fusion process is scalable and we believe it is the most cost effective process in producing large size substrates.

We are recognized for providing product innovations that enable our customers to produce larger, lighter, thinner and higher-resolution displays more affordably. Some of the product innovations that we have launched over the past ten years utilizing our world-class processes and capabilities include the following:

- EAGLE XG®, the industry’s first LCD glass substrate that is free of heavy metals;
- EAGLE XG® Slim glass, a line of thin glass substrates which enables lighter-weight portable devices and thinner televisions and monitors;
- Corning® Willow™ Glass, our ultra-thin flexible glass for use in next-generation consumer electronic technologies, including curved displays for immersive viewing or mounting on non-flat surfaces. This glass is also used in a

variety of non-display applications, such as decorative laminates for interior architecture and advanced semiconductor packaging; and

- The family of Corning Lotus™ Glass, high-performance display glass developed to enable cutting-edge technologies, including organic light-emitting diode (“OLED”) displays and next generation LCDs. These substrate glasses provide industry-leading levels of low total pitch variation, resulting in brighter, more energy-efficient displays with higher resolutions for consumers and better yields for panel makers.

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%. As described more fully in Note 8 (Acquisitions) to the Consolidated Financial Statements, 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. Corning completed the acquisition of Samsung Corning Precision Materials on January 15, 2014.

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In the fourth quarter of 2015, Corning announced that with the support of the Hefei government it will locate a Gen 10.5 glass manufacturing facility adjacent to the BOE Technology Group Co. Ltd. (BOE) plant in the Hefei XinZhan General Pilot Zone in Anhui Province, China. Glass substrate production from the new facility is expected to support BOE's plan to begin mass production of LCD panels for large-size televisions by the third quarter of 2018.

As part of this investment, Corning and BOE have entered into a long-term supply agreement that commits BOE to the purchase of Gen 10.5 glass substrates from the Corning manufacturing facility in Hefei. BOE also has extended its long-term supply agreement with Corning to purchase glass substrates for Gen 8.5 and smaller sizes. This investment will enable Corning to become the first manufacturer of TFT-grade Gen 10.5 substrates. At 2,940 mm x 3,370 mm, Gen 10.5 will be the largest LCD glass substrate available, providing the most economical cuts for 65-inch and 75-inch televisions. The Gen 10.5 substrates manufactured at the Hefei facility will use Corning® EAGLE XG® slim glass.

Corning has LCD glass manufacturing operations in the United States, South Korea, Japan, Taiwan and China. Following the acquisition of Samsung Corning Precision Materials, 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. Refer to the material under the heading "Patents and Trademarks" for information relating to patents and trademarks.

The Display Technologies segment represented 34% of Corning's sales in 2015.

## 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, telecommunications 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.

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. A portion of our optical fiber is sold directly to end users and third-party cablers 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.

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.

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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® solution built on an all-optical backbone with modular service support. The ONE™ 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® ultra-bendable multimode fiber for data centers and other enterprise network applications; InfiniCor® fibers for local area networks; and more recently ClearCurve® VSDN® 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® 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.

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 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 33% of Corning’s sales for 2015.

## 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.

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The Environmental Technologies segment represented 12% of Corning's sales for 2015.

### 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 over previous generations of competitive glass, 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 and handheld devices 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 2015.

### 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 and drug manufacturers seeking new approaches to increase efficiencies, reduce costs and compress timelines. 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 consumables (plastic vessels, specialty surfaces and media), as well as general labware and equipment, 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 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 laboratory consumables for life science research, Corning continues to develop and produce innovative technologies aimed at the growing biologic drug production markets.

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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 more information.

The Life Sciences segment represented approximately 9% of Corning's sales for 2015.

### 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's Pharmaceutical Technologies business, which consists of a pharmaceutical glass vessel business and a glass tubing business used in the pharmaceutical packaging industry. This segment also includes Corning Precision Materials' non-LCD business and new product lines and development projects such as precision laser cutting/shaping technologies, advanced flow reactors and adjacency businesses in pursuit of thin, strong glass, as well as certain corporate investments such as Eurokera and Keraglass equity affiliates.

The All Other segment represented less than 1% of Corning's sales for 2015.

Additional explanation regarding Corning and its five reportable segments, as well as financial information about geographic areas, 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 \$5,649 million in 2015.

On December 11, 2015, Corning announced its intention to exchange its 50% equity interest in Dow Corning Corporation for 100% of the stock of a newly formed entity that will become a wholly-owned subsidiary of Corning Incorporated. The newly formed entity will hold approximately 40% ownership in Hemlock Semiconductor Group and approximately \$4.8 billion in cash. Upon completion of this strategic realignment, which is expected to close during the first half of 2016, Dow Chemical, an equal owner of Dow Corning with Corning since 1943, will assume 100% ownership of Dow Corning.

Additional discussion about Dow Corning appears in Part II – Item 3. Legal Proceedings section and in Note 7 (Investments) to the Consolidated Financial Statements. Dow Corning's financial statements are attached in Item 15, Exhibits and Financial Statement Schedules.

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 the Legal Proceedings section and 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 maintain 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.

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### Display Technologies Segment

We believe Corning is the largest worldwide producer of glass substrates for 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 continually improving 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 and enterprise networks. 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 Commscope and Prysmian Group.

### Environmental Technologies Segment

Corning has a major market position in worldwide automotive ceramic substrate products, as well as a strong presence in the heavy duty and light duty diesel vehicle market. The Company 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, global distribution, supply chain efficiency, a broad 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.

### 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. Additionally, in the fourth quarter of 2015, we entered into a 25-year power purchase agreement for solar-generated electricity in which we will purchase 62.5% of the expected output of a solar power facility in North Carolina. This is a major step in Corning's commitment to reduce its carbon footprint and continues our long history of being an environmentally conscious company.

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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 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 2015, Corning was granted about 420 patents in the U.S. and over 740 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 2015, Corning and its wholly-owned subsidiaries owned over 7,750 unexpired patents in various countries of which over 3,250 were U.S. patents. Between 2016 and 2017, approximately 6% of these patents will expire, while at the same time Corning intends to seek patents protecting its newer innovations. Worldwide, Corning has about 9,170 patent applications in process, with about 2,350 in process in the U.S. Corning believes that its patent portfolio will continue to provide a competitive advantage in protecting the Company's innovation, although Corning's competitors in each of its businesses are actively seeking patent protection as well.

The Display Technologies segment has over 1,430 patents in various countries, of which about 340 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 are six important Display Technologies segment patents set to expire between 2016 and 2018.

The Optical Communications segment has over 2,730 patents in various countries, of which over 1,270 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 are 10 important Optical Communications segment patents set to expire between 2016 and 2018.

The Environmental Technologies segment has over 690 patents in various countries, of which over 295 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 are 36 important Environmental Technologies segment patents set to expire between 2016 and 2018.

The Specialty Materials segment has over 750 patents in various countries, of which over 360 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 are eight important Specialty Materials segment patents set to expire between 2016 and 2018.

The Life Sciences segment has over 540 patents in various countries, of which about 220 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 are 31 important Life Sciences segment patents set to expire between 2016 and 2018.

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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: Corning, Celcor, ClearCurve, DuraTrap, Eagle XG, Epic, Gorilla, HPFS, 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 \$14 million in 2015 and are estimated to be \$26 million in 2016.

Corning's 2015 consolidated operating results were charged with approximately \$45 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, 2015, Corning had approximately 35,700 full-time employees, including approximately 12,100 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 23.1% 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 Shizuoka facility. In 2002, he was appointed as general manager of CDT worldwide business. He served as president of Corning Display Technologies from September 2005 through July 2010. He was appointed president, Corning Glass Technologies, in 2010. Age 58.

Martin J. Curran Executive Vice President and Corning Innovation Officer

Mr. Curran joined Corning in 1984 and has held a variety of roles in finance, manufacturing, and marketing. He has served as senior vice president, general manager for Corning Cable Systems Hardware and Equipment Operations in the Americas, responsible for operations in Hickory, North Carolina; Keller, Texas; Reynosa, Mexico; Shanghai, China; and the Dominican Republic. Mr. Curran was appointed as Corning's first innovation officer in August 2012. Age 57.

Jeffrey W. Evenson Senior Vice President and Chief Strategy Officer

Dr. Evenson joined Corning in June 2011 as senior vice president and operations chief of staff. In 2015, he was named Chief Strategy Officer. 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 50.

Lisa Ferrero Senior Vice President and Chief Administrative Officer

Ms. Ferrero joined Corning in 1987 as a statistician and held various production management positions until joining Display Technologies in 1995 as a market analyst in Tokyo. While in Japan, she was appointed export sales manager for Taiwan and Korea. In 1998, she returned to Corning, N.Y. and was named market development manager. She was appointed director of strategic marketing, planning, and analysis for Display Technologies in 2000. In 2002, Ms. Ferrero joined Environmental Technologies as business manager for the heavy-duty diesel business and was named director of the automotive substrates business in 2003. She was named vice president and deputy general manager, Display Technologies Asia in June 2005. She served as general manager of Corning Display Technologies from July 2010 through 2015 overseeing operations across four regions: China, Japan, Taiwan and the U.S. Ms. Ferrero became senior vice president and chief administrative officer in January 2016. Age 52.

Clark S. Kinlin Executive Vice President

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. 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. Mr. Kinlin is on the board of Dow Corning Corporation. Age 56.

Lawrence D. McRae Vice Chairman and Corporate Development Officer

Mr. McRae joined Corning in 1985 and served in various financial, sales and marketing positions. He was appointed vice president Corporate Development in 2000, senior vice president Corporate Development in 2003, senior vice president Strategy and Corporate Development in October 2005, and executive vice president Strategy and Corporate Development in 2010. He was appointed to his present position in August 2015. Mr. McRae is on the board of

directors of Dow Corning Corporation. Age 57.

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 appointed vice president in January 2003, becoming senior vice president and director of corporate research in 2006. Dr. Morse was appointed 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 63.

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**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 56.

**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 47.

**Mark S. Rogus** Senior Vice President and Treasurer

Mr. Rogus joined Corning in 1996 as manager, Corporate Finance. In 1999 he was appointed assistant treasurer. He was appointed as vice president and treasurer in December 2000, responsible for Corning's worldwide treasury functions, including corporate finance, treasury operations, risk management, investment and pension plans. He has served as senior vice president and treasurer of Finance since January 2004. Prior to joining Corning, Mr. Rogus was a senior vice president at Wachovia Bank where he managed the bank's business development activities in the U.S. mid-Atlantic region and Canada for both investment and non-investment grade clients. Age 56.

**Edward A. Schlesinger** Vice President and Corporate Controller

Mr. Schlesinger joined Corning in 2013 as senior vice president and chief financial officer of Corning Optical Communications. He led the Finance function for Corning Optical Communications and served on the Communications Leadership Team. He was named vice president and corporate controller in September 2015, and appointed principal accounting officer in December 2015. Prior to joining Corning, Mr. Schlesinger served as Vice President, Finance and Sector Chief Financial Officer for two of Ingersoll Rand's business segments. Mr. Schlesinger has a financial career that spans more than 20 years garnering extensive expertise in technical financial management and reporting. Age 48.

**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 52.

**R. Tony Tripeny** Senior Vice President and Chief Financial 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, vice president, corporate controller in October 2005, and senior vice president and principal accounting officer in April 2009. Mr. Tripeny was appointed to his current position as senior vice president and chief financial officer in September 2015. He is a member of the board of directors of Hardinge, Inc. Age 56.

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. and Amazon.com, Inc. Mr. Weeks has been a member of Corning's Board of Directors since 2000. Age 56.

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Document Availability

A copy of Corning's 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available upon written request to Corporate Secretary, Corning Incorporated, One Riverfront Plaza, 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 website 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.

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

We are a global company 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, research and development, customer support, and shared administrative service centers.

Compliance with laws and regulations increases our costs. 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;

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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;

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- 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 2015, Corning's ten largest customers accounted for 45% of our sales.

A relatively small number of customers accounted for a high percentage of net sales in our reportable segments. For 2015, three customers of the Display Technologies segment accounted for 62% of total segment net sales when combined. In the Optical Communications segment in 2015, two customers accounted for 22% of total segment net sales when combined. In the Environmental Technologies segment in 2015, three customers accounted for 86% of total segment sales in aggregate. In the Specialty Materials segment, three customers accounted for 56% of total segment sales in 2015 when combined. In the Life Sciences segment, two customers accounted for 46% of total segment sales in 2015 in aggregate. 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 and data center expansions. Our sales will be dependent on planned targets for homes passed and connected and construction of new and/or expansion of existing data centers. Changes in our customers' deployment plans could adversely affect future sales.

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. 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.

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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. We may not be able to achieve proportionate reductions in costs or sustain our current rate of cost reduction to offset pricing pressures. 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, South 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 U.S. dollar and Japanese yen. Sales in our Display Technologies segment, representing 34% of Corning's sales in 2015, 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.

A large portion of our sales, profit and cash flows are transacted in non-U.S. 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. 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

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.

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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. 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.

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, 2015, Corning had goodwill and other intangible assets of \$2,086 million. In the fourth quarter of 2015, we recorded a charge of \$29 million for the impairment of goodwill resulting from a small acquisition in 2014. While we believe the estimates and judgments about future cash flows used in the goodwill impairment tests are reasonable, we cannot provide assurance that additional impairment charges in the future 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.

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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.

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 assessment 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.

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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 CO<sub>2</sub> 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.

We may experience difficulties in enforcing our intellectual property rights, which could result in loss of market share, 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, potentially resulting in loss of market share. 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.

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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, 2015, we recognized \$299 million of equity earnings, of which approximately 94% came from Dow Corning (which makes silicone and high purity polycrystalline products).

On December 11, 2015, Corning announced its intention to exchange its 50% equity interest in Dow Corning for 100% of the stock of a newly formed entity that will become a wholly-owned subsidiary of Corning Incorporated. The newly formed entity will hold approximately 40% ownership in Hemlock Semiconductor Group and approximately \$4.8 billion in cash. Upon completion of this strategic realignment, which is expected to close during the first half of 2016, Dow Chemical, an equal owner of Dow Corning with Corning since 1943, will assume 100% ownership of Dow Corning.

Going forward, we face the risk that our other equity investments may not perform at the levels expected. 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 or regulations 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.

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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, and we face the reputational and legal risk that our related partners 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.

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.

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We use electronic IT in our manufacturing processes and operations and other aspects of our business. Our IT systems may be 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.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

We operate approximately 89 manufacturing plants and processing facilities in 17 countries, of which approximately 34% are located in the U.S. We own 75% 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 72% of our sales and administrative facilities. The remaining facilities are leased.

For the years ended 2015, 2014 and 2013, we invested a total of \$3.3 billion, primarily in facilities outside of the U.S. in our Display Technologies segment. Of the \$1.3 billion spent in 2015, over \$781 million were for facilities outside the U.S.

Manufacturing, sales and administrative, and research and development facilities have an aggregate floor space of approximately 36.3 million square feet. Distribution of this total area follows:

(million square feet)	Total	Domestic	Foreign
Manufacturing	29.5	7.6	21.9
Sales and administrative	2.3	1.9	0.4
Research and development	2.2	1.9	0.3
Warehouse	2.3	1.7	0.6

Total	36.3	13.1	23.2
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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.

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Item 3. Legal Proceedings

Dow Corning Corporation. Corning and Dow Chemical each own 50% of the common stock of 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 Chemical 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, 2015, Dow Corning had recorded a reserve for breast implant litigation of \$291 million. See Note 7 (Investments) to the Consolidated Financial Statements 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, 2015, Dow Corning has estimated the liability to commercial creditors to be within the range of \$104 million to \$341 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 \$104 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"). On January 6, 2016, all pending appeals of the Plan were withdrawn and Corning expects that the Plan will become effective in April 2016.

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 will contribute its equity interest in PCC and PCE on the Plan's Funding Effective Date, which is expected to occur in June 2016. Corning has the option to use its common stock 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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## 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 (the “non-PCC asbestos claims”). 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 claims (the “Stay”). The Stay remains in place as of the date of this filing; however, given that the Amended PCC Plan is now affirmed by the District Court and the Third Circuit Court of Appeals, Corning anticipates the Stay will be lifted in the second half of 2016. These non-PCC asbestos claims have been covered by insurance without material impact to Corning to date. As of December 31, 2015, Corning had received for these claims approximately \$19 million in insurance payments. When the Stay is lifted, these non-PCC asbestos claims will be allowed to proceed against Corning. In prior periods, Corning recorded in its estimated asbestos litigation liability an additional \$150 million for these and any future non-PCC asbestos claims.

## 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 \$678 million at December 31, 2015, compared with an estimate of liability of \$681 million at December 31, 2014. The \$678 million liability is comprised of \$238 million of the fair value of PCE, \$290 million for the fixed series of payments, and \$150 million for the non-PCC asbestos claims, all referenced in the preceding paragraphs. With respect to the PCE liability, at December 31, 2015 and 2014, the fair value of \$238 million and \$241 million of our interest in PCE significantly exceeded its carrying value of \$154 million and \$162 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 asbestos claims was estimated based upon industry data for asbestos claims since Corning does not have recent claim history due to the Stay 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, 2015 and 2014, Corning recorded asbestos litigation income of \$15 million and expense of \$9 million, respectively. At December 31, 2015, \$440 million of the obligation, consisting of the \$290 million for the fixed series of payments and \$150 million for the non-PCC asbestos claims, 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. The amount of the obligation related to the fair value of PCE, \$238 million, was reclassified to a current liability in the fourth quarter of 2015, as the contribution of the assets is expected to be made within the next twelve months.

## Non-PCC Asbestos Claims 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 has resolved these issues with a majority of its relevant insurers, and is vigorously contesting these cases with the remaining relevant insurers. Management is unable to predict the outcome of the litigation with these remaining insurers.

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 17 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, 2015 and 2014, Corning had accrued approximately \$37 million (undiscounted) and \$43 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.

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Chinese Anti-Dumping Investigation Involving Optical Fiber Preforms Produced in the United States. On March 19, 2014, the Chinese Ministry of Commerce (“MOFCOM”) initiated an anti-dumping investigation involving optical fiber preforms originating in the United States and Japan. On July 23, 2015, MOFCOM announced its Final Determination that included a dumping margin of 41.79% against Corning. The company is evaluating its options to appeal MOFCOM’s decision.

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 New York Stock Exchange Composite Tape.

	First quarter	Second quarter	Third quarter	Fourth quarter
2015				
Price range				
High	\$ 25.16	\$ 22.98	\$ 20.02	\$ 19.29
Low	\$ 21.89	\$ 19.57	\$ 15.24	\$ 16.36
2014				
Price range				
High	\$ 20.99	\$ 22.20	\$ 22.37	\$ 23.52
Low	\$ 16.55	\$ 20.17	\$ 19.23	\$ 17.03

As of December 31, 2015, there were approximately 16,622 registered holders of common stock and approximately 492,337 beneficial shareholders.

On February 3, 2016, Corning's Board of Directors declared a 12.5% increase in the Company's quarterly common stock dividend, which increased the quarterly dividend from \$0.12 to \$0.135 per share of common stock, beginning with the dividend to be paid in the first quarter of 2016. This increase marks the fifth dividend increase since October 2011. The Board previously increased the quarterly dividend 20%, from \$0.10 to \$0.12, on December 3, 2014. The Company paid four quarterly dividends of \$0.12 during the year ended December 31, 2015 and paid four quarterly dividends of \$0.10 during the year ended December 31, 2014.

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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 2015:

## 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)
October 1-31, 2015	54,513,746	\$18.77	54,500,524	\$4,521,528,007
November 1-30, 2015	10,654	\$18.82		\$4,521,528,007
December 1-31, 2015	141,145	\$18.42		\$4,521,528,007
Total at December 31, 2015	54,665,545	\$18.77	54,500,524	\$4,521,528,007

(1) These columns reflect the following transactions during the fourth quarter of 2015: (i) the deemed surrender to us of 86,015 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 79,006 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 54,500,524 shares of common stock in conjunction with the repurchase programs announced on July 15, 2015.

(2) On July 15, 2015, Corning's Board of Directors authorized the repurchase of up to \$2 billion worth of shares of common stock between the date of announcement and December 31, 2016. On October 26, 2015, Corning's Board of Directors supplemented this program with the authorization to repurchase an additional \$4 billion worth of shares of common stock.

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## Item 6. Selected Financial Data (Unaudited)

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

	Years ended December 31,				
	2015	2014	2013	2012	2011
Results of operations					
Net sales	\$ 9,111	\$ 9,715	\$ 7,819	\$ 8,012	\$ 7,890
Research, development and engineering expenses	\$ 769	\$ 815	\$ 710	\$ 769	\$ 668
Equity in earnings of affiliated companies	\$ 299	\$ 266	\$ 547	\$ 810	\$ 1,471
Net income attributable to Corning Incorporated	\$ 1,339	\$ 2,472	\$ 1,961	\$ 1,636	\$ 2,817
Earnings per common share attributable to Corning Incorporated:					
Basic	\$ 1.02	\$ 1.82	\$ 1.35	\$ 1.10	\$ 1.80
Diluted	\$ 1.00	\$ 1.73	\$ 1.34	\$ 1.09	\$ 1.78
Cash dividends declared per common share	\$ 0.36	\$ 0.52	\$ 0.39	\$ 0.32	\$ 0.23
Shares used in computing per share amounts:					
Basic earnings per common share	1,219	1,305	1,452	1,494	1,562
Diluted earnings per common share	1,343	1,427	1,462	1,506	1,583
Financial position					
Working capital	\$ 5,455	\$ 7,914	\$ 7,145	\$ 7,739	\$ 6,580
Total assets	\$ 28,547	\$ 30,063	\$ 28,478	\$ 29,375	\$ 27,848
Long-term debt	\$ 3,910	\$ 3,227	\$ 3,272	\$ 3,382	\$ 2,364
Total Corning Incorporated shareholders' equity	\$ 18,788	\$ 21,579	\$ 21,162	\$ 21,486	\$ 21,078
Selected data					
Capital expenditures	\$ 1,250	\$ 1,076	\$ 1,019	\$ 1,801	\$ 2,432
Depreciation and amortization	\$ 1,184	\$ 1,200	\$ 1,002	\$ 997	\$ 957
Number of employees	35,700	34,600	30,400	28,700	28,800

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

##### Strategy and Capital Allocation Framework

In October 2015, Corning announced a new strategy and capital allocation framework that reflects the company's financial and operational strengths, as well as its ongoing commitment to increasing shareholder value.

Our probability of success increases as we invest in our world-class capabilities. Over the next four years, Corning will concentrate approximately 80% of its research, development and engineering investment and capital spending on a cohesive set of three core technologies, four manufacturing and engineering platforms, and five market-access platforms. This strategy will allow us to quickly apply our talents and repurpose our assets as needed.

Our financial strength also allows us to increase our return to shareholders. Through 2019, we expect to generate and deploy over \$20 billion in cash and to return more than \$10 billion to shareholders through share repurchases and dividends. As a result, we expect to increase our dividend per common share by at least 10% annually through 2019.

##### 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. Our spending level for research, development and engineering remained consistent at 8% of sales in the year ended December 31, 2015 when compared to the year ended December 31, 2014. We continue to maintain our innovation strategy focusing 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, emission 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. We have also focused our research, development and engineering spending to support the advancement of new product attributes for our Corning Gorilla Glass suite of products, including Gorilla Glass® in automotive and architectural markets. 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 and architectural applications.

#### 2015 Results

The global economic headwinds, the continued softening in the television and consumer electronic device retail markets and the negative impact of the strengthening of the U.S. dollar negatively impacted Corning in 2015, resulting in lower net sales and net income when compared to results in 2014.

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Net sales in the year ended December 31, 2015 were \$9,111 million, a decrease of \$604 million, or 6%, when compared to the year ended December 31, 2014. Sales in our Optical Communications segment increased by \$328 million, or 12%, but were more than offset by declines in our other segments. The increase in sales in the Optical Communications segment was due to an increase in volume in North America in both carrier network and enterprise network products and the impact of several acquisitions completed in 2015. The decrease in sales of \$765 million, or 20%, in the Display Technologies segment was the most significant segment decline, and was driven by the depreciation of the Japanese yen versus the U.S. dollar in the amount of \$446 million and price declines in the low-teens in percentage terms, partially offset by a mid-single digit increase in volume.

For the year ended December 31, 2015, we generated net income of \$1.3 billion, or \$1.00 per share, compared to net income of \$2.5 billion, or \$1.73 per share, for 2014. When compared to last year, the decrease in net income was due to the following items (amounts presented after tax):

- The decrease in the unrealized gains from our foreign currency hedges related to translated earnings in the amount of \$1,054 million;
- A decrease in net income of \$301 million in the Display Technologies segment, driven by price declines in the low-teens in percentage terms more than offsetting a mid-single digit percentage increase in volume, continued softening in the television and IT retail markets and the impact of the change in the fair value of the contingent consideration resulting from the acquisition of Corning Precision Materials in the amount of \$184 million;
- The increase of \$81 million in our defined benefit pension plans mark-to-market loss, driven by lower returns on our U.S. pension assets; and
- The absence of a gain of \$38 million recorded in 2014 related to the settlement of an intellectual property dispute.

The decrease in net income for the year ended December 31, 2015 was partially offset by the following items:

- The positive change in the amounts recorded related to tax law changes and valuation allowance adjustments of \$204 million;
- An increase of \$43 million in the Optical Communications segment, due to higher sales volume for both carrier and enterprise network products, the favorable impact of several acquisitions completed this year and manufacturing efficiencies gained through cost reductions; and
  - An increase in equity earnings of \$33 million, driven by higher earnings at Dow Corning.

The translation impact of fluctuations in foreign currency exchange rates negatively affected Corning's consolidated net income in the year ended December 31, 2015 in the amount of \$294 million when compared to 2014. This impact was partially offset by the increase in the realized gain from our foreign currency translation hedges related to translated earnings of \$186 million.

## 2016 Corporate Outlook

In 2016, Corning expects its Display Technologies segment to experience continued moderate sequential LCD glass price declines and glass volume growth in the mid-single digit percentage year over year, in line with total glass demand growth. We anticipate that a rise in global demand for Corning's carrier and enterprise network products will drive an increase in sales of a mid-single digit percentage in our Optical Communications segment, and that an increase in Corning Gorilla Glass and advanced optics volume will drive sales growth in the low-teens on a percentage basis in our Specialty Materials segment. We expect sales in our Environmental Technologies segment to be down slightly for the year, driven by lower year-over-year demand for heavy-duty diesel products. And we expect to continue the execution of our strategy and capital allocation framework begun in the fourth quarter of 2015, under which we plan to grow and sustain our leadership position in the markets in which we operate and return more than

\$10 billion to shareholders through 2019.

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## RESULTS OF OPERATIONS

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

	2015	2014	2013	15 vs. 14	% change 14 vs. 13
Net sales	\$9,111	\$9,715	\$7,819	(6)	24
Gross margin (gross margin %)	\$3,653 40%	\$4,052 42%	\$3,324 43%	(10)	22
Selling, general and administrative expenses (as a % of net sales)	\$1,523 17%	\$1,211 12%	\$1,126 14%	26	8
Research, development and engineering expenses (as a % of net sales)	\$769 8%	\$815 8%	\$710 9%	(6)	15
Restructuring, impairment and other charges (as a % of net sales)		\$71 1%	\$67 1%	*	6
Equity in earnings of affiliated companies (as a % of net sales)	\$299 3%	\$266 3%	\$547 7%	12	(51)
Transaction-related gain, net (as a % of net sales)		\$74 1%		*	*
Foreign currency hedge gain, net (as a % of net sales)	\$85 1%	\$1,411 15%	\$622 8%	(94)	127
Income before income taxes (as a % of net sales)	\$1,486 16%	\$3,568 37%	\$2,473 32%	(58)	44
Provision for income taxes (as a % of net sales)	\$(147) (2)%	\$(1,096) (11)%	\$(512) (7)%	(87)	114
Net income attributable to Corning Incorporated (as a % of net sales)	\$1,339 15%	\$2,472 25%	\$1,961 25%	(46)	26

\* Percent change not meaningful.

## Net Sales

The following table presents net sales by reportable segment (in millions):

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	Year ended December 31,			%	%
	2015	2014	2013	Change 15 vs. 14	Change 14 vs. 13
Display Technologies	\$ 3,086	\$ 3,851	\$ 2,545	(20)%	51%
Optical Communications	2,980	2,652	2,326	12%	14%
Environmental Technologies	1,053	1,092	919	(4)%	19%
Specialty Materials	1,107	1,205	1,170	(8)%	3%
Life Sciences	821	862	851	(5)%	1%
All Other	64	53	8	21%	563%
Total net sales	\$ 9,111	\$ 9,715	\$ 7,819	(6)%	24%

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For the twelve months ended December 31, 2015, net sales decreased by \$604 million, or 6%, when compared to the same period in 2014. Driving the decline in net sales are the following items:

- A decrease of \$765 million in the Display Technologies segment, driven by the depreciation of the Japanese yen versus the U.S. dollar, which adversely impacted net sales in the amount of \$446 million, and price declines in the low-teens on a percentage basis. Although volume increased in the mid-single digits in percentage terms, growth was muted somewhat by weakness in demand for televisions, computer monitors and mobile computing products;
- A decrease in the Environmental Technologies segment of \$39 million, driven by the translation impact from movements in foreign currency exchange rates versus the U.S. dollar, primarily the euro, of \$57 million and lower sales of light duty diesel products in Europe, partially offset by higher volume for heavy-duty diesel and light-duty substrate products;
- A decrease of \$98 million in the Specialty Materials segment, driven primarily by a decline in advanced optics sales; and
- A decrease of \$41 million in the Life Sciences segment due to the impact of unfavorable movements in foreign exchange rates of \$43 million.

An increase of \$328 million in the Optical Communications segment slightly offset the decline in sales. The increase was driven by higher sales of enterprise network products, up \$170 million, due to an acquisition completed in the first quarter of 2015 and an increase in data center products sales. Sales of carrier network products also increased by \$158 million driven by growth in fiber-to-the-home products in North America and the impact of two small acquisitions completed in the first quarter of 2015.

In the year ended December 31, 2015, the translation impact of fluctuations in foreign currency exchange rates, primarily the Japanese yen and the euro, negatively affected Corning's consolidated net sales in the amount of \$663 million when compared to the same period in 2014.

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, partially offset by price declines in the mid-teens on a percentage basis 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, 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 Sciences increased by \$11 million, driven by growth in North America and China, up \$12 million and \$5 million, respectively.

In the year ended December 31, 2014, the translation impact of fluctuations in foreign currency exchange rates, primarily the Japanese yen, negatively affected Corning's consolidated net sales in the amount of \$347 million when compared to the same period in 2013.

In 2015, 2014 and 2013, sales in international markets accounted for 70%, 77% and 74%, 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

In the year ended December 31, 2015, gross margin dollars and gross margin as a percentage of net sales both declined when compared to the same period last year, declining \$399 million and 2%, respectively. The negative impact of the depreciation of the Japanese yen versus the U.S. dollar in the amount of \$368 million and price declines in the Display Technologies segment in the low teens in percentage terms drove the decrease, but were partially offset by cost reductions and the impact of several small acquisitions in the Optical Communications segment, improvements in manufacturing performance in the Display Technologies and Specialty Materials segments and lower acquisition-related and restructuring costs. Additionally, our Emerging Innovation Group and Corning Pharmaceutical Technologies business added \$26 million in gross margin dollars in 2015, reflecting the growing significance of new business development.

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.

## Selling, General and Administrative Expenses

In the twelve months ended December 31, 2015, selling, general and administrative expenses increased by \$312 million when compared to the same period in 2014, driven primarily by an increase of \$133 million in our defined benefit pension plans mark-to-market loss, the absence of the positive impact of a contingent consideration fair value adjustment of \$249 million recorded in 2014 and an increase in spending in the Optical Communications segment driven by several acquisitions completed in 2015. Offsetting these increases somewhat were a decrease in variable compensation, lower spending in the Display Technologies and Specialty Materials segments and a decline in acquisition-related and post-combination expenses, which were higher last year due to additional costs incurred related to the acquisition of the remaining equity interests of Samsung Corning Precision Materials. When compared to the same period last year, as a percentage of net sales, selling, general and administrative expenses increased driven by lower net sales in 2015.

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 of Samsung Corning Precision Materials.

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, 2015, research, development and engineering expenses decreased by \$46 million when compared to the same period last year, driven by lower variable compensation and a decrease in the Display Technologies and Specialty Materials segments. As a percentage of net sales, research, development and engineering expenses remained consistent with the same period in 2014.

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.

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## Restructuring, Impairment, and Other Charges

Corning recorded restructuring, impairment, and other charges and credits in 2014 and 2013, 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:

## 2015 Activity

For the year ended December 31, 2015, we did not record significant restructuring, impairment and other charges or reversals. Cash expenditures for restructuring activities were \$40 million.

## 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 of approximately \$39 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. Cash expenditures were approximately \$35 million.

## Equity in Earnings of Affiliated Companies

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

	Years ended December 31,		
	2015	2014	2013
Samsung Corning Precision Materials			\$ 320
Dow Corning	\$ 281	\$ 252	196
All other	18	14	31
Total equity earnings	\$ 299	\$ 266	\$ 547

Equity earnings of affiliated companies increased by \$33 million in the twelve months ended December 31, 2015, when compared to the same period in 2014, reflecting the increase in equity earnings from Dow Corning.

Equity earnings of affiliated companies decreased by \$281 million in the twelve months ended December 31, 2014, when compared to the same period in 2013, 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,

	2015	2014	2013
Silicones	\$ 160	\$ 653	\$ 166
Polysilicon (Hemlock Semiconductor Group)	121	(401)	30
Total Dow Corning	\$ 281	\$ 252	\$ 196

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 Chemical as shareholders in exchange for contributions to the Plan.

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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, 2015, Dow Corning had recorded a reserve for breast implant litigation of \$291 million. See Note 7 (Investments) to the Consolidated Financial Statements and Part II – Item 3. Legal Proceedings for additional detail.

On December 11, 2015, Corning announced its intention to exchange its 50% equity interest in Dow Corning Corporation for 100% of the stock of a newly formed entity that will become a wholly-owned subsidiary of Corning. The newly formed entity will hold approximately 40% ownership in Hemlock Semiconductor Group and approximately \$4.8 billion in cash. Upon completion of this strategic realignment, which is expected to close during the first half of 2016, Dow Chemical, an equal owner of Dow Corning with Corning since 1943, will assume 100% ownership of Dow Corning.

### 2015 vs. 2014

Equity earnings from Dow Corning increased by \$29 million in the twelve months ended December 31, 2015, when compared to the same period in 2014, driven by the following items:

- A decrease in equity earnings from the silicones business of \$493 million, driven by the following items:
  - o The absence of the gain resulting from the reduction of the Implant Liability in the amount of \$393 million;
  - o The absence of \$46 million of favorable tax adjustments recorded in 2014;
- o The negative impact of the change in the mark-to-market of a derivative instrument in the amount of \$56 million (\$43 million loss in 2015 compared to \$13 million gain in 2014); and
  - o Lower volume and unfavorable movements in foreign exchange rates.
- A significant increase in equity earnings from the polysilicon business in the amount of \$522 million, driven by the absence of the \$465 million charge for the abandonment of a polycrystalline silicon plant expansion recorded in 2014 and an increase in Corning's share of settlements of long-term sales agreements in the amount of \$40 million (\$49 million in the first quarter of 2015 compared to \$9 million in the first quarter of 2014), partially offset by lower volume.

### 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
- A 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 million, 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.

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## Foreign Currency Hedge Gain, Net

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

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

	Year ended December 31, 2014		Year ended December 31, 2013		Change 2014 vs. 2013	
(in millions)	Income before income taxes	Net income	Income before income taxes	Net income	Income before income taxes	Net income
Hedges related to translated earnings:						
Realized gains, net	\$ 274	\$ 224	\$ 67	\$ 55	\$ 207	\$ 169
Unrealized gains	1,095	692	368	232	727	460
Total translated earnings contract gain	1,369	916	435	287	934	629
Foreign currency hedges, other	42	27	187	118	(145)	(91)
Foreign Currency Hedge Gain, Net	\$ 1,411	\$ 943	\$ 622	\$ 405	\$ 789	\$ 538

The gross notional value outstanding for our foreign currency hedges related to translated earnings at December 31, 2015 is \$11.9 billion, and is comprised of the following: 1) Japanese yen-denominated hedges - \$8.3 billion; 2) South Korean won-denominated hedges - \$3.3 billion; and 3) euro-denominated hedges - \$345 million.

## Income Before Income Taxes

The translation impact of fluctuations in foreign currency exchange rates negatively affected Corning's Income before income taxes in the year ended December 31, 2015 in the amount of \$388 million when compared to 2014. This impact was partially offset by the increase in the realized gain from our foreign currency translation hedges related to translated earnings of \$379 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,		
	2015	2014	2013
Provision for income taxes	\$ 147	\$ 1,096	\$ 512
Effective tax rate	9.9%	30.7%	20.7%

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The effective income tax rate for 2015 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 resulting from the inclusion of high-taxed foreign earnings in U.S. income;
  - The impact of equity in earnings of nonconsolidated affiliates reported in the financials, net of tax;
- \$63 million tax expense for unrecognized tax benefit primarily for positions taken related to net transfer pricing adjustments (offset with benefit for competent authority relief); and
- \$100 million tax benefit primarily related to change in judgment on the realizability of Germany and Japan deferred tax assets which is partially offset with tax expense from U.S. state and China deferred tax allowances increases.

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 resulting from the inclusion of high-taxed foreign earnings in U.S. income; 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 tax assets in Germany and Japan.

Corning has valuation allowances on certain shorter-lived deferred tax assets such as those represented by capital loss and state tax net operating loss carryforwards, 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, 2015 and 2014 was \$238 million and \$298 million, respectively.

Corning continues to indefinitely reinvest substantially all of its foreign earnings, with the exception of an immaterial amount 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, 2015, taxes have not been provided on approximately \$11 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 0.5, 0.4 and 1.2 percentage points for 2015, 2014 and 2013, 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.

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## 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,		
	2015	2014	2013
Net income attributable to Corning Incorporated	\$ 1,339	\$ 2,472	\$ 1,961
Net income attributable to Corning Incorporated used in basic earnings per common share calculation (1)	\$ 1,241	\$ 2,378	\$ 1,961
Net income attributable to Corning Incorporated used in diluted earnings per common share calculation (1)	\$ 1,339	\$ 2,472	\$ 1,961
Basic earnings per common share	\$ 1.02	\$ 1.82	\$ 1.35
Diluted earnings per common share	\$ 1.00	\$ 1.73	\$ 1.34
Shares used in computing per share amounts			
Basic earnings per common share	1,219	1,305	1,452
Diluted earnings per common share	1,343	1,427	1,462

(1) Refer to Note 18 (Earnings per Common Share) to the Consolidated Financial Statements for additional information.

## Comprehensive Income

(In millions)	Years ended December 31,		
	2015	2014	2013
Net income attributable to Corning Incorporated	\$ 1,339	\$ 2,472	\$ 1,961
Foreign currency translation adjustments and other	(590)	(1,073)	(682)
Net unrealized gains (losses) on investments	1	(1)	2
Unamortized gains (losses) and prior service (costs) credits for postretirement benefit plans	121	(281)	392
Net unrealized (losses) gains on designated hedges	(36)	4	(24)
Other comprehensive loss, net of tax (Note 17)	(504)	(1,351)	(312)
Comprehensive income attributable to Corning Incorporated	\$ 835	\$ 1,121	\$ 1,649

## 2015 vs. 2014

For the year ended December 31, 2015, comprehensive income decreased by \$286 million when compared to the same period in 2014, driven by a decrease of \$1,133 million in net income attributable to Corning Incorporated, offset by the positive impact of the change in foreign currency translation adjustments and the increase in unamortized gains for postretirement benefit plans.

The decrease in the loss on foreign currency translation adjustments for the year ended December 31, 2015 in the amount of \$483 million (after-tax) was driven by the following items: 1) the decrease in the loss in the translation of Corning's consolidated subsidiaries in the amount of \$334 million; 2) the decrease in the loss in the translation of Corning's equity method investments in the amount of \$13 million; and 3) the absence of the reclassification of a gain to net income in 2014 in the amount of \$136 million related to the acquisition of Samsung Corning Precision

Materials.

The increase in unamortized gains for postretirement benefit plans in the amount of \$402 million (after-tax) is due to the following: 1) the increase in the reclassification to the income statement of \$81 million of actuarial losses in our defined benefit pension plans, largely driven by lower investment returns; 2) a decrease in actuarial losses of \$119 million; and 3) the increase in actuarial gains of \$202 million from our equity affiliate Dow Corning.

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.

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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.

See Note 13 (Employee Retirement Plans) and Note 17 (Shareholders' Equity) to the Consolidated Financial Statements 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. Corning has adopted the use of constant currency reporting for the Japanese yen and South Korean won, and uses an internally derived management rate which is closely aligned to our foreign currency hedges. In the first quarter of 2015, we changed the yen-to-dollar management rate from ¥93 to ¥99 to closely align with the yen-denominated hedges entered into for the years 2015 through 2017. Prior periods presented have been recast based on the new rate.

Net sales, equity in earnings of affiliated companies and net income are adjusted to exclude the impacts of changes in the Japanese yen and the South Korean won, gains and losses on our foreign currency hedges related to translated earnings, acquisition-related costs, discrete tax items, restructuring and restructuring-related charges, certain litigation-related 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's discussion and analysis on our reportable segments has also been adjusted for these items, as appropriate. These measures are not prepared in accordance with Generally Accepted Accounting Principles in the United States ("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 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):

	2015	2014	2013	% change	
				15 vs. 14	14 vs. 13
Core net sales	\$ 9,800	\$ 9,955	\$ 7,780	(2)%	28%
Core equity in earnings of affiliated companies	\$ 269	\$ 310	\$ 531	(13)%	(42)%
Core earnings attributable to Corning Incorporated	\$ 1,882	\$ 2,023	\$ 1,656	(7)%	22%

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## Core Net Sales

The following table presents core net sales by reportable segment (in millions):

	Year ended December 31,			%	%
	2015	2014	2013	Change 15 vs. 14	Change 14 vs. 13
Display Technologies	\$ 3,774	\$ 4,092	\$ 2,507	(8)%	63%
Optical Communications	2,980	2,652	2,326	12%	14%
Environmental Technologies	1,053	1,092	919	(4)%	19%
Specialty Materials	1,107	1,205	1,170	(8)%	3%
Life Sciences	821	862	851	(5)%	1%
All Other	65	52	7	25%	643%
Total core net sales	\$ 9,800	\$ 9,955	\$ 7,780	(2)%	28%

In all segments except Display Technologies, core net sales are consistent with GAAP net sales. Because a significant portion of revenues and manufacturing costs in the Display Technologies segment are denominated in Japanese yen, this segment is adjusted to remove the impact of translating yen into dollars. Presenting results on a constant-yen basis mitigates the translation impact of the Japanese yen, and allows management to evaluate performance period over period, analyze underlying trends in our businesses and establish operational goals and forecasts. As of January 1, 2015, we use an internally derived management rate of ¥99, which is closely aligned to our current yen-denominated hedges related to translated earnings, and have recast all periods presented based on this rate in order to effectively remove the impact of changes in the Japanese yen.

Core net sales decreased by \$155 million to \$9.8 billion in the year ended December 31, 2015 when compared to the same period in 2014. Driving the decline in core net sales are the following items:

- A decrease of \$318 million in the Display Technologies segment, driven by price declines in the low-teens on a percentage basis. Although volume increased in the mid-single digits in percentage terms, growth was muted somewhat by weakness in demand for televisions, computer monitors and mobile computing products;
- A decrease in the Environmental Technologies segment of \$39 million, driven by the translation impact from movements in foreign currency exchange rates versus the U.S. dollar, primarily the euro, of \$57 million and lower sales of light duty diesel products in Europe, partially offset by higher volume for heavy duty diesel and light duty substrate products;
- A decrease of \$98 million in the Specialty Materials segment, driven primarily by a decline in advanced optics sales; and
- A decrease of \$41 million in the Life Sciences segment due to the impact of unfavorable movements in foreign exchange rates of \$43 million.

An increase of \$328 million in the Optical Communications segment slightly offset the decline in sales. The increase was driven by higher sales of enterprise network products, up \$170 million, due to an acquisition completed in the first quarter of 2015 and an increase in data center products sales. Sales of carrier network products also increased, up \$158 million, driven by growth in fiber-to-the-home products in North America and the impact of two small acquisitions completed in the first quarter of 2015.

Corning's core net sales in the year ended December 31, 2014 improved in all of our segments, increasing by \$2,175 million to \$9,955 million, when compared to the same period in 2013. Driving the growth in core net sales are the following items:

- Display Technologies increased by \$1,585 million, due to the consolidation of Corning Precision Materials 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, 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;

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- 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.

The translation impact from movements in foreign currency exchange rates in the years ended December 31, 2015 and 2014, excluding the Japanese yen and South Korean won, negatively affected core net sales in the amount of \$215 million and \$68 million, respectively, when compared to the prior years.

## Core Equity in Earnings of Affiliated Companies

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

	2015	2014	2013	15 vs. 14	% change 14 vs. 13
Samsung Corning Precision Materials			\$ 356		
Dow Corning *	\$ 245	\$ 287	145	(15)%	98%
All other	24	23	30	4%	(23)%
Total core equity earnings	\$ 269	\$ 310	\$ 531	(13)%	(42)%

\*In 2013, we excluded the operating results of Dow Corning's consolidated subsidiary Hemlock Semiconductor, a producer of polycrystalline silicon, to remove the impact of the severe unpredictability and instability in the polysilicon market.

Core equity earnings of affiliated companies decreased by \$41 million in the twelve months ended December 31, 2015, when compared to the same period in 2014, reflecting the decrease in equity earnings from Dow Corning.

Core equity earnings of affiliated companies decreased by \$221 million in the twelve months ended December 31, 2014, when compared to the twelve months ended December 31, 2013, 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,		
	2015	2014	2013
Silicones	\$ 176	\$ 197	\$ 145
Polysilicon (Hemlock Semiconductor Group)	69	90	31
Total Dow Corning	\$ 245	\$ 287	\$ 176

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

	2015	2014	2013
As reported	\$ 281	\$ 252	\$ 196
Hemlock Semiconductor operating results (8)			(31)
Hemlock Semiconductor non-operating results (8)			(1)
Equity in earnings of affiliated companies (8)	(36)	35	(19)



Core Performance measures	\$	245	\$	287	\$	145
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See Reconciliation of Non-GAAP Measures – Items Excluded from GAAP Measures below for the descriptions of the footnoted reconciling items.

2015 vs. 2014

Core equity earnings from Dow Corning decreased by \$42 million, or 15%, in the year ended December 31, 2015, when compared to the same period last year, due to lower volume and unfavorable movements in foreign exchange rates and the devaluation of the Chinese yuan.

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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.

## Core Earnings

## 2015 vs. 2014

In the year ended December 31, 2015, we generated core earnings of \$1,882 million or \$1.40 per share, compared to \$2,023 million or \$1.42 per share in the year ended December 31, 2014. The decrease was due to lower core earnings in the Display Technologies, Environmental Technologies, Specialty Materials and Life Sciences segments, and the unfavorable translation impact from movements in foreign currency exchange rates, excluding the Japanese yen and South Korean won, of \$57 million. Slightly offsetting the decline is higher core earnings in the Optical Communications segment, up \$61 million, driven by higher sales volume for both carrier network and enterprise network products, the favorable impact of several acquisitions completed this year and manufacturing efficiencies gained through cost reductions.

## 2014 vs. 2013

When compared to the same period in the prior year, core earnings increased in the twelve months ended December 31, 2014 by \$367 million, or 22%, to \$2,023 million, 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 \$58 million in the Environmental Technologies segment, driven by an increase in demand for our diesel products and improved manufacturing efficiency; and
- An increase of \$34 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.

Included in core earnings for the years ended December 31, 2015, 2014 and 2013 is net periodic pension expense in the amount of \$62 million, \$74 million and \$37 million, respectively, which excludes the annual pension mark-to-market adjustments. In the years ended December 31, 2015, 2014 and 2013, the mark-to-market adjustments were a pre-tax loss of \$165 million, a pre-tax loss of \$29 million and a pre-tax gain of \$30 million, respectively. Refer to Note 13 (Employee Retirement Plans) to the Consolidated Financial Statements for additional information.

## 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):

	2015	2014	2013
Core earnings attributable to Corning Incorporated	\$ 1,882	\$ 2,023	\$ 1,656
Less: Series A convertible preferred stock dividend	98	94	
Core earnings available to common stockholders - basic	1,784	1,929	1,656

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Add: Series A convertible preferred stock dividend	98	94	
Core earnings available to common stockholders - diluted	\$ 1,882	\$ 2,023	\$ 1,656
Weighted-average common shares outstanding - basic	1,219	1,305	1,452
Effect of dilutive securities:			
Stock options and other dilutive securities	9	12	10
Series A convertible preferred stock	115	110	
Weighted-average common shares outstanding - diluted	1,343	1,427	1,462
Core basic earnings per common share	\$ 1.46	\$ 1.48	\$ 1.14
Core diluted earnings per common share	\$ 1.40	\$ 1.42	\$ 1.13

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## 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.

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

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

Core performance measures	\$ 9,800	\$ 269	\$ 2,190	\$ 1,882	14.1%	\$ 1.40
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See “Items Excluded from GAAP Measures” below for the descriptions of the footnoted reconciling items.

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	Year ended December 31, 2014					
	Net sales	Equity earnings	Income before income 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)*	240	1	197	144		0.10
Constant-won (1)			37	26		0.02
Foreign currency hedges related to translated earnings (2)			(1,369)	(916)		(0.64)
Acquisition-related costs (3)			74	57		0.04
Discrete tax items and other tax-related adjustments (4)				240		0.17
Litigation, regulatory and other legal matters (5)			(1)	(2)		
Restructuring, impairment and other charges (6)			86	66		0.05
Liquidation of subsidiary (7)				(3)		
Equity in earnings of affiliated companies (8)		43	43	38		0.03
Gain on previously held equity investment (9)			(394)	(292)		(0.20)
Settlement of pre-existing contract (9)			320	320		0.22
Contingent consideration fair value adjustment (9)			(249)	(194)		(0.14)
Post-combination expenses (9)			72	55		0.04
Impacts from the acquisition of Samsung Corning Precision Materials (9)			(9)	(12)		(0.01)
Pension mark-to-market adjustment (11)			29	24		0.02
Core performance measures	\$ 9,955	\$ 310	\$ 2,404	\$ 2,023	15.8%	\$ 1.42

\*In the first quarter of 2015, we changed the yen-to-dollar management rate from ¥93 to ¥99 to closely align with the yen-denominated hedges entered into for the years 2015 through 2017. Prior periods presented have been recast based on the new rate.

See “Items Excluded from GAAP Measures” below for the descriptions of the footnoted reconciling items.



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	Year ended December 31, 2013					
(in millions)	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)*	(39)	(28)	(53)	(45)		(0.03)
Foreign currency hedges related to translated earnings (2)			(435)	(287)		(0.20)
Other yen-related transactions (2)			(99)	(69)		(0.05)
Acquisition-related costs (3)			54	40		0.03
Discrete tax items and other tax-related adjustments (4)				9		0.01
Litigation, regulatory and other legal matters (5)			19	13		0.01
Restructuring, impairment and other charges (6)			67	46		0.03
Equity in earnings of affiliated companies (8)		42	42	44		0.02
Hemlock Semiconductor operating results (8)		(31)	(31)	(30)		(0.02)
Hemlock Semiconductor non-operating results (8)		1	1	1		
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	\$ 7,780	\$ 531	\$ 1,995	\$ 1,656	17.0%	\$ 1.13

\*In the first quarter of 2015, we changed the yen-to-dollar management rate from ¥93 to ¥99 to closely align with the yen-denominated hedges entered into for the years 2015 through 2017. Prior periods presented have been recast based on the new rate.

See “Items Excluded from GAAP Measures” below for the descriptions of the footnoted reconciling items.

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Items Excluded from GAAP Measures

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

- (1) Constant-currency adjustments:  
 Constant-yen: Because a significant portion of Display Technologies segment revenues and manufacturing costs are denominated in Japanese yen, management believes it is important to understand the impact on core earnings of translating yen into dollars. Presenting results on a constant-yen basis mitigates the translation impact of the Japanese yen, and allows management to evaluate performance period over period, analyze underlying trends in our businesses, and establish operational goals and forecasts. As of January 1, 2015, we used an internally derived management rate of ¥99, which is closely aligned to our current yen portfolio of foreign currency hedges, and have recast all periods presented based on this rate in order to effectively remove the impact of changes in the Japanese yen.  
 Constant-won: Following the acquisition of Samsung Corning Precision Materials and because a significant portion of Corning Precision Materials' costs are denominated in South Korean won, management believes it is important to understand the impact on core earnings from translating won into dollars. Presenting results on a constant-won basis mitigates the translation impact of the South Korean won, and allows management to evaluate performance period over period, analyze underlying trends in our businesses, and establish operational goals and forecasts without the variability caused by the fluctuations caused by changes in the rate of this currency. We use an internally derived management rate of 1,100, which is consistent with historical prior period averages of the won.
- (2) Foreign currency hedges related to translated earnings: We have excluded the impact of the gains and losses of our foreign currency hedges related to translated earnings for each period presented.
- (3) Acquisition-related costs: These expenses include intangible amortization, inventory valuation adjustments and external acquisition-related deal costs.
- (4) Discrete tax items and other tax-related adjustments: This represents the removal of discrete adjustments attributable to changes in tax law and changes in judgment about the realizability of certain deferred tax assets, as well as other non-operational tax-related adjustments, including the tax effect of transfer pricing out-of-period adjustments in 2014 and 2015.
- (5) Litigation, regulatory and other legal matters: Includes amounts related to the Pittsburgh Corning Corporation (PCC) asbestos litigation, adjustments to our estimated liability for environmental-related items and other legal matters.
- (6) Restructuring, impairment and other charges: This amount includes restructuring, impairment and other charges, including goodwill impairment charges and other expenses and disposal costs not classified as restructuring expense.
- (7) Liquidation of subsidiary: The partial impact of non-restructuring related items due to the decision to liquidate a consolidated subsidiary that is not significant.
- (8) Equity in earnings of affiliated companies: These adjustments relate to items which do not reflect expected on-going operating results of our affiliated companies, such as restructuring, impairment and other charges and settlements under "take-or-pay" contracts. In 2013, we excluded the operating results of Dow Corning's consolidated subsidiary Hemlock Semiconductor, a producer of polycrystalline silicon, to remove the impact of the severe unpredictability and instability in the polysilicon market.
- (9) Impacts from the acquisition of Samsung Corning Precision Materials: Pre-acquisition gains and losses on previously held equity investment and other gains and losses related to the acquisition, including post-combination expenses, fair value adjustments to the indemnity asset related to

contingent consideration and the impact of the withholding tax on a dividend from Samsung Corning Precision Materials.

- (10) Post-combination expenses: Post-combination expenses incurred as a result of an acquisition in the first quarter of 2015.
- (11) Pension mark-to-market adjustment: Mark-to-market pension gains and losses, which arise from changes in actuarial assumptions and the difference between actual and expected returns on plan assets and discount rates.
- (12) Gain on change in control of equity investment: Gain as a result of certain changes to the shareholder agreement of an equity company, resulting in Corning having a controlling interest that requires consolidation of this investment.

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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 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’s Pharmaceutical Technologies business, which consists of a pharmaceutical glass business and a glass tubing business used in the pharmaceutical packaging industry. This segment also includes Corning Precision Materials’ non-LCD business and new product lines and development projects such as laser technologies, advanced flow reactors and adjacency businesses in pursuit of thin, strong glass, as well as certain corporate investments such as Eurokera and Keraglass equity affiliates.

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 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” above. 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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## Display Technologies

The following table provides net sales and net income for the Display Technologies segment and reconciles the non-GAAP financial measures for the Display Technologies segment with our financial statements presented in accordance with GAAP (in millions):

	Year ended December 31, 2015		Year ended December 31, 2014		Year ended December 31, 2013	
	Sales	Net income	Sales	Net income	Sales	Net income
(in millions)						
As reported	\$ 3,086	\$ 1,095	\$ 3,851	\$ 1,396	\$ 2,545	\$ 1,293
Constant-yen (1)*	686	419	240	142	(38)	(47)
Constant-won (1)	2	(17)		27		
Foreign currency hedges related to translated earnings (2)		(416)		(290)		(90)
Other yen-related transactions (2)						(67)
Acquisition-related costs (3)				37		8
Discrete tax items and other tax-related adjustments (4)				4		10
Restructuring, impairment and other charges (6)				40		6
Equity in earnings of affiliated companies (8)				6		28
Impacts from the acquisition of Samsung Corning Precision Materials (9)		(10)	1	(121)		
Pension mark-to-market adjustment (11)		4		2		(8)
Core performance measures	\$ 3,774	\$ 1,075	\$ 4,092	\$ 1,243	\$ 2,507	\$ 1,133

\*In the first quarter of 2015, we changed the yen-to-dollar management rate from ¥93 to ¥99 to closely align with the yen-denominated hedges entered into for the years 2015 through 2017. Prior periods presented have been recast based on the new rate.

See “Items Excluded from GAAP Measures” above for the descriptions of the footnoted reconciling items.

## As Reported

## 2015 vs. 2014

When compared to the same period in 2014, the decrease in net sales of \$765 million, or 20%, in the year ended December 31, 2015 was driven by price declines in the low-teens in percentage terms and the depreciation of the Japanese yen versus the U.S. dollar, which adversely impacted net sales in the amount of \$446 million. Sequentially, fourth quarter LCD glass price declines were the lowest sequential decline of 2015. Although volume increased in the mid-single digits in percentage terms, growth was muted somewhat by weakness in demand for televisions, computer monitors and mobile computing products. Additionally, in the third quarter of 2015, we experienced temporary share loss at one of our largest customers due to a contract dispute. We resolved the dispute in the fourth quarter of 2015, and extended our long-term supply agreement with this customer to 2025.

Net income in the Display Technologies segment decreased by \$301 million, or 22%, in the year ended December 31, 2015, when compared to the same period last year. This decrease was driven by the following items:

- The impact of price declines in the low-teens in percentage terms that more than offset the mid-single digit percent increase in volume;
- A decrease of \$184 million in the gain on the fair value adjustment of the contingent consideration resulting from the acquisition of Corning Precision Materials; and
- The absence of a gain on the settlement of an intellectual property dispute recorded in 2014 in the amount of \$38 million.

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

- Improvements in manufacturing efficiency of \$79 million;
- A decline in transaction and acquisition-related costs in the amounts of \$73 million and \$37 million, respectively;
  - A decrease of \$40 million in restructuring, impairment and other charges; and
  - A decline in operating expenses.

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The translation impact of fluctuations in foreign currency exchange rates negatively impacted Display Technologies net income in the year ended December 31, 2015 in the amount of \$233 million when compared to the same period in 2014. This impact was partially offset by the increase in the realized gain from our foreign currency hedges related to translated earnings in the amount of \$126 million.

### 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 \$103 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.

## Core Performance

### 2015 vs. 2014

When compared to the same period in 2014, core net sales in the Display Technologies segment decreased by \$318 million, or 8%, in the year ended December 31, 2015, driven primarily by price declines in the low-teens in percentage terms. Sequentially, LCD glass price declines in the fourth quarter remained moderate. Although volume increased in the mid-single digits in percentage terms, growth was muted somewhat by weakness in demand for televisions, computer monitors and mobile computing products. Additionally, in the third quarter of 2015, we experienced temporary share loss at one of our largest customers due to a contract dispute. We resolved the dispute in the fourth quarter of 2015, and extended our long-term supply agreement with this customer to 2025.

Core earnings in the Display Technologies segment in the year ended December 31, 2015 declined by \$168 million, or 14%, when compared to the same period last year. Volume increases in the mid-single digits in percentage terms, lower manufacturing costs and a decline in operating expenses were more than offset by price declines in the low-teens and the absence of a gain on the settlement of an intellectual property dispute recorded in 2014 in the amount of \$38 million.

### 2014 vs. 2013

When compared to the same period last year, the increase in core net sales of \$1,585 million, or 63%, 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 \$1.9 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 \$110 million, or 10%, 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.

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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 2015, three customers of the Display Technologies segment, which individually accounted for more than 10% of segment net sales, accounted for a combined 62% of total segment sales. 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. 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, sales to two LCD panel makers located in South Korea accounted for approximately 93% of Samsung Corning Precision Materials sales.

Corning has invested to expand capacity to meet the projected demand for LCD glass substrates. In 2015, 2014 and 2013, capital spending in this segment was \$594 million, \$492 million and \$350 million, respectively. We expect capital spending for 2016 to be approximately \$600 million.

2016 Outlook:

In the first quarter of 2016, Corning anticipates that panel maker utilization will continue to decline, which will reduce inventory levels in the supply chain. As a result, the overall glass market and Corning's LCD glass volume are expected to decline by a mid-to-high single-digit percentage sequentially. Corning's LCD glass price decline is expected to be moderate, achieving what will be one of the lowest first-quarter declines in five years.

For the full year, Corning expects moderate sequential price declines to continue, and for its glass volume to grow by a mid-single-digit percentage year over year, in line with total glass demand growth. Corning expects global television unit sales will grow by a low single-digit percentage, and the average screen size will increase by at least 1.5 inches. The company expects panel maker utilization to increase as the year progresses, and retail LCD glass area demand to be up by a high single-digit percentage in 2016.

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## Optical Communications

The following table provides net sales and net income for the Optical Communications segment and reconciles the non-GAAP financial measures for the Optical Communications segment with our financial statements presented in accordance with GAAP (in millions):

	Year ended December 31, 2015		Year ended December 31, 2014		Year ended December 31, 2013	
(in millions)	Sales	Net income	Sales	Net income	Sales	Net income
As reported	\$ 2,980	\$ 237	\$ 2,652	\$ 194	\$ 2,326	\$ 189
Acquisition-related costs (3)		16		(2)		9
Litigation, regulatory and other legal matters (5)		13				
Restructuring, impairment and other charges (6)		(1)		17		8
Liquidation of subsidiary (7)				(2)		
Post-combination expenses (10)		16				
Pension mark-to-market adjustment (11)				13		(9)
Gain on change in control of equity investment (12)						(11)
Core performance measures	\$ 2,980	\$ 281	\$ 2,652	\$ 220	\$ 2,326	\$ 186

See “Items Excluded from GAAP Measures” above for the descriptions of the footnoted items.

## As Reported

## 2015 vs. 2014

In the year ended December 31, 2015, net sales of the Optical Communications segment increased by \$328 million, or 12%, when compared to the same period in 2014, driven by an increase in both carrier network and enterprise network products. Carrier networks increased by \$158 million, driven by higher sales of fiber-to-the-home and cable products in North America and the impact of recent acquisitions, offset somewhat by lower sales of wireless products and fiber and cable products in Europe. Sales declined in Europe driven by lower volume and the negative impact of movements in the euro exchange rate versus the U.S. dollar. Enterprise network sales grew by \$170 million, primarily due to the impact of an acquisition completed in 2015 and an increase in data center product sales. The translation impact from movements in foreign currency exchange rates in 2015 negatively impacted Optical Communications net sales in the amount of \$101 million, when compared to the same period in 2014.

The increase in net income of \$43 million, or 22%, was primarily driven by higher sales volume for both carrier network and enterprise network products and manufacturing efficiencies gained through cost reductions, offset somewhat by acquisition-related and post-combination expenses associated with three acquisitions completed in the first quarter of 2015. Also somewhat offsetting the increase were price declines and a small legal settlement. The translation impact from movements in foreign currency exchange rates did not significantly impact net income of this segment in the year ended December 31, 2015 when compared to the same period in 2014.

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### 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. The translation impact from movements in foreign currency exchange rates in 2014 negatively impacted Optical Communications net sales in the amount of \$64 million, when compared to the same period in 2013.

Net income increased by \$5 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.

The translation impact from movements in foreign currency exchange rates did not significantly impact net income of this segment in the year ended December 31, 2014 when compared to the same period in 2013.

### Core Performance

#### 2015 vs. 2014

In the year ended December 31, 2015, core earnings increased by \$61 million, or 28%, driven by higher sales volume for both carrier network and enterprise network products and manufacturing efficiencies gained through cost reductions, offset somewhat by price declines.

#### 2014 vs. 2013

Core earnings in the twelve months ended December 31, 2014 increased by \$34 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.

The Optical Communications segment has a concentrated customer base. In the year ended December 31, 2015, two customers, which individually accounted for more than 10% of segment net sales, accounted for 22% of total segment net sales. In the years ended December 31, 2014 and 2013, one customer, which individually accounted for more than

10% of segment net sales, accounted for 11% and 10%, respectively, of total segment net sales.

2016 Outlook:

Corning expects sales in the first quarter of 2016 to increase in the low-to-mid-single digit percentage range over its sales in the comparable period a year ago. For the full year, the company expects sales to increase by a mid-single-digit percentage and exceed the goal of two times the growth rate of industry capital expenditures.

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## Environmental Technologies

The following table provides net sales and net income for the Environmental Technologies segment and reconciles the non-GAAP financial measures for the Environmental Technologies segment with our financial statements presented in accordance with GAAP (in millions):

	Year ended December 31, 2015		Year ended December 31, 2014		Year ended December 31, 2013	
	Sales	Net income	Sales	Net income	Sales	Net income
(in millions)						
As reported	\$ 1,053	\$ 161	\$ 1,092	\$ 178	\$ 919	\$ 127
Restructuring, impairment and other charges (6)						1
Pension mark-to-market adjustment (11)				5		(3)
Core performance measures	\$ 1,053	\$ 161	\$ 1,092	\$ 183	\$ 919	\$ 125

See “Items Excluded from GAAP Measures” above for the descriptions of the footnoted items.

## As Reported

## 2015 vs. 2014

In the year ended December 31, 2015, net sales of this segment decreased by \$39 million, or 4%, when compared to the same period in 2014. Sales of automotive light-duty substrates declined driven almost entirely by the negative impact of movements in the euro exchange rate versus the U.S. dollar, partially offset by higher volume in North America and Europe. Sales of diesel products also declined in these periods, driven by lower sales of light-duty diesel products in Europe and the negative impact of the movements in the euro exchange rate, partially offset by higher volume for heavy duty diesel. The translation impact from movements in foreign currency exchange rates versus the U.S. dollar, primarily the euro, negatively impacted net sales in the Environmental Technologies segment in 2015 in the amount of \$57 million, when compared to the same period in 2014.

Net income declined in the year ended December 31, 2015 by \$17 million, or 10%, when compared to the same period last year, driven predominantly by lower sales, the unfavorable impact of the depreciation of the euro versus the U.S. dollar and facility expansion costs to support growth in China. The translation impact from movements in foreign currency exchange rates versus the U.S. dollar, primarily the euro, negatively impacted net income in the Environmental Technologies segment in the amount of \$21 million in the year ended December 31, 2015 when compared to the same period in 2014.

## 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 \$51 million, or 40%, 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.

The translation impact from movements in foreign currency exchange rates did not significantly impact sales or net income of this segment in the year ended December 31, 2014 when compared to the same period in 2013.

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## Core Performance

## 2015 vs. 2014

Core earnings declined by \$22 million, or 12%, in the year ended December 31, 2015, when compared to the same period last year, driven predominantly by lower sales, the unfavorable impact of the depreciation of the euro versus the U.S. dollar and facility expansion costs to support growth in China. The translation impact from movements in foreign currency exchange rates versus the U.S. dollar, primarily the euro, negatively impacted net income in the Environmental Technologies segment in the amount of \$21 million in the year ended December 31, 2015 when compared to the same period in 2014.

## 2014 vs. 2013

When compared to the same period last year, core earnings in the twelve months ended December 31, 2014 increased by \$58 million, or 46%, 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.

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 2015, 2014 and 2013, net sales to three customers, which individually accounted for more than 10% of segment sales, accounted for 86%, 88% and 87%, 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.

## 2016 Outlook:

The North American heavy-duty truck market is down after several years of robust growth. As a result, first-quarter sales are expected to decline by approximately 10%, compared with the same period last year. The full-year outlook is for sales to decline by a low single-digit percentage.

## Specialty Materials

The following table provides net sales and net income for the Specialty Materials segment and reconciles the non-GAAP financial measures for the Specialty Materials segment with our financial statements presented in accordance with GAAP (in millions):

	Year ended December 31, 2015		Year ended December 31, 2014		Year ended December 31, 2013	
	Sales	Net income	Sales	Net income	Sales	Net income
(in millions)						
As reported	\$ 1,107	\$ 167	\$ 1,205	\$ 138	\$ 1,170	\$ 181
Constant-yen (1)*		(6)		(3)		2
Constant-won (1)		(2)				
Foreign currency hedges related to translated earnings (2)		5		14		
Acquisition-related costs (3)				(1)		1
		14		12		12

Restructuring, impairment and  
other charges (6)

Pension

mark-to-market adjustment (11)

Core performance measures	\$ 1,107	\$ 178	\$ 1,205	\$ 160	\$ 1,170	\$ 194	(2)
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\*In the first quarter of 2015, we changed the yen-to-dollar management rate from ¥93 to ¥99 to closely align with the yen-denominated hedges entered into for the years 2015 through 2017. Prior periods presented have been recast based on the new rate.

See “Items Excluded from GAAP Measures” above for the descriptions of the footnoted items.

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As Reported

2015 vs. 2014

Net sales for the year ended December 31, 2015 decreased by \$98 million, or 8%, when compared to the same period in 2014, primarily due to lower sales of advanced optics products. This decline was driven by weakness in the semiconductor industry, delays in a large aerospace and defense program and the depreciation of the euro versus the U.S. dollar. The translation impact from movements in foreign currency exchange rates negatively impacted net sales in the Specialty Materials segment in the amount of \$12 million in 2015, when compared to the same period in 2014.

When compared to the same period last year, the increase in net income of \$29 million, or 21%, in the year ended December 31, 2015 was driven by an increase in Corning Gorilla Glass volume, improvements in manufacturing efficiency and lower operating expenses gained through cost reductions, offset somewhat by a decrease in sales of advanced optics products. The translation impact from movements in foreign currency exchange rates did not significantly impact net income of this segment in 2015 when compared to the same period in 2014.

2014 vs. 2013

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 of \$43 million, or 24%, 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 of 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.

The translation impact from movements in foreign currency exchange rates did not significantly impact sales or net income of this segment in the year ended December 31, 2014 when compared to the same period in 2013.

Core Performance

2015 vs. 2014

When compared to the same period last year, core earnings increased by \$18 million, or 11%, in the year ended December 31, 2015, driven by an increase in Corning Gorilla Glass volume, improvements in manufacturing efficiency and lower operating expenses gained through cost reductions, offset somewhat by a decrease in sales of advanced optics products.

2014 vs. 2013

When compared to the same period last year, the decrease in core earnings of \$34 million, or 18%, 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.

For 2015, 2014 and 2013, three customers of the Specialty Materials segment, which individually accounted for more than 10% of segment sales, accounted for 56%, 51% and 47%, respectively, of total segment sales.

2016 Outlook:

First-quarter sales are expected to decline year over year by a mid-teen percentage. For 2016, the Company estimates annual sales will grow by a low-teen percentage when compared to 2015. The variable timing of mobile device product launches drives Corning Gorilla Glass demand and is expected to cause significant swings in quarterly results.

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## Life Sciences

The following table provides net sales and net income for the Life Sciences segment and reconciles the non-GAAP financial measures for the Life Sciences segment with our financial statements presented in accordance with GAAP (in millions):

	Year ended December 31, 2015		Year ended December 31, 2014		Year ended December 31, 2013	
(in millions)	Sales	Net income	Sales	Net income	Sales	Net income
As reported	\$ 821	\$ 61	\$ 862	\$ 67	\$ 851	\$ 68
Acquisition-related costs (3)		12		14		21
Restructuring, impairment and other charges (6)				2		3
Pension mark-to-market adjustment (11)						(3)
Core performance measures	\$ 821	\$ 73	\$ 862	\$ 83	\$ 851	\$ 89

See “Items Excluded from GAAP Measures” above for the descriptions of the footnoted items.

## As Reported

## 2015 vs. 2014

Net sales for the year ended December 31, 2015 decreased by \$41 million, or 5%, when compared to the same period last year, due to the negative impact of the strengthening of the U.S. dollar versus foreign currencies, which negatively impacted net sales by \$43 million. Net income in the Life Sciences segment declined by \$6 million, or 9%, when compared to the same period last year, with the negative impact from movements in foreign exchange rates in the amount of \$14 million more than offsetting improvements in manufacturing efficiency.

## 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 relatively consistent when compared to the same period in 2013, driven by less favorable product mix and higher operating expenses which more than offset higher volume and lower acquisition-related costs due to the completion of the integration of Discovery Labware business.

The translation impact from movements in foreign currency exchange rates did not significantly impact sales or net income of this segment in the year ended December 31, 2014 when compared to the same period in 2013.

## Core Performance

## 2015 vs. 2014

In the year ended December 31, 2015, core earnings in the Life Sciences segment declined by \$10 million, or 12%, when compared to the same period last year, with the negative impact from movements in foreign exchange rates more than offsetting improvements in manufacturing efficiency.

## 2014 vs. 2013

Core earnings decreased by \$6 million in the year ended December 31, 2014, when compared to the same period in 2013, driven by less favorable product mix, offset somewhat by higher volume.

For 2015, 2014 and 2013, two customers in the Life Sciences segment, which individually accounted for more than 10% of total segment net sales, collectively accounted for 46%, 45% and 44%, respectively, of total segment sales.

2016 Outlook:

First-quarter sales are expected to increase by a low single-digit percentage, compared with last year. For the full year, sales are anticipated to grow faster than the market, which is expected to be up by a low single-digit percentage.

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## 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’s Pharmaceutical Technologies business, which consists of a pharmaceutical glass business and a glass tubing business used in the pharmaceutical packaging industry. This segment also includes Corning Precision Materials’ non-LCD business and new product lines and development projects such as laser technologies, advanced flow reactors and adjacency businesses in pursuit of thin, strong glass, as well as certain corporate investments such as Eurokera and Keraglass equity affiliates.

The following table provides net sales and other data for All Other (in millions):

As Reported	2015	2014	2013	% change	
				15 vs. 14	14 vs. 13
Net sales	\$ 64	\$ 53	\$ 8	21	563
Research, development and engineering expenses	\$ 186	\$ 177	\$ 116	5	53
Equity earnings of affiliated companies	\$ 17	\$ 18	\$ (24)	(6)	*
Net loss	\$ (202)	\$ (198)	\$ (165)	(2)	20

\* Percent change not meaningful

## 2015 vs. 2014

The increase in net sales of this segment in the year ended December 31, 2015 reflects the impact of an acquisition in the Corning Pharmaceutical Technologies business completed in the fourth quarter of 2015 and an increase in sales in our emerging businesses. The slight increase in the net loss of this segment was driven by a goodwill impairment loss of \$29 million, offset by higher net income in the pharmaceutical technologies and Corning Precision Materials’ non-LCD businesses.

## 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.

## LIQUIDITY AND CAPITAL RESOURCES

## Financing and Capital Structure

The following items impacted Corning’s financing and capital structure during 2015, 2014 and 2013:

## 2015

- In the second quarter of 2015, we issued \$375 million of 1.50% senior unsecured notes that mature on May 8, 2018 and \$375 million of 2.90% senior unsecured notes that mature on May 15, 2022. The net proceeds of \$745 million will be used for general corporate purposes. We can redeem these notes at any time, subject to certain customary terms and conditions.

## 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, 2015, 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, 2015, 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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- 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.
- 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 February 3, 2016, Corning's Board of Directors declared a 12.5% increase in the Company's quarterly common stock dividend, which increased the quarterly dividend from \$0.12 to \$0.135 per share of common stock, beginning with the dividend to be paid in the first quarter of 2016. This increase marks the fifth dividend increase since October 2011. The Board previously increased the quarterly dividend 20%, from \$0.10 to \$0.12, on December 3, 2014. The Company paid four quarterly dividends of \$0.12 during the year ended December 31, 2015 and paid four quarterly dividends of \$0.10 during the year ended December 31, 2014.

## 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, 2015, 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 of Samsung Corning Precision Materials, 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.

## Customer Deposits

In December 2015, Corning announced that with the support of the Hefei government it will locate a Gen 10.5 glass manufacturing facility in the Hefei XinZhan General Pilot Zone in Anhui Province, China. Glass substrate production from the new facility is expected to support mass production of LCD panels for large-size televisions by the third quarter of 2018.

As part of this investment, Corning and a Chinese customer have entered into a long-term supply agreement that commits the customer to the purchase of Gen 10.5 glass substrates from the Corning manufacturing facility in Hefei. This agreement stipulates that the customer will provide a non-refundable cash deposit in the amount of approximately \$400 million to Corning to secure rights to an amount of glass that is produced by Corning over the next 10 years. Corning received \$197 million of this deposit in 2015 and will receive the additional \$197 million in 2016. As glass is shipped to the customer, Corning will recognize revenue and issue credit memoranda to reduce the amount of the customer deposit liability, which are applied against customer receivables resulting from the sale of glass. In 2015, there were no credit memoranda issued.

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## Capital Spending

Capital spending totaled \$1.3 billion in 2015, slightly above the amount spent in 2014. Spending in 2015 was driven primarily by the Display Technologies segment, and focused on finishing line optimization and tank rebuilds. We expect our 2016 capital expenditures to be approximately \$1.3 billion. Approximately \$600 million will be allocated to our Display Technologies segment.

## Cash Flows

Summary of cash flow data (in millions):

	Years ended December 31,		
	2015	2014	2013
Net cash provided by operating activities	\$ 2,809	\$ 4,709	\$ 2,787
Net cash used in investing activities	\$ (685)	\$ (962)	\$ (1,004)
Net cash used in financing activities	\$ (2,603)	\$ (2,586)	\$ (2,063)

## 2015 vs. 2014

Net cash provided by operating activities decreased significantly in the year ended December 31, 2015, when compared to the same period last year, due to the absence of a special one-time dividend of \$1,574 million received from Samsung Corning Precision Materials in the first quarter of 2014, lower net income and cash outflows from working capital movements, offset somewhat by the receipt of a \$197 million customer deposit and the adjustment to net income related to gains on foreign currency hedges and other noncash operating adjustments. Cash outflows from working capital movements were largely driven by an increase in variable compensation paid in 2015 and an increase in inventory in the Display Technologies segment.

Net cash used in investing activities decreased in the year ended December 31, 2015, when compared to the same period last year, due to net liquidations of short-term investments and an increase in realized gains on our foreign currency hedges related to translated earnings, offset by higher capital spending and several acquisitions that were completed in 2015.

Net cash used in financing activities in the year ended December 31, 2015 increased slightly when compared to the same period last year, driven by an increase in share repurchases and the absence of cash received from the issuance of preferred stock, offset by proceeds received from the issuance of long-term debt and commercial paper.

## 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 \$1,574 million 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 of Samsung Corning Precision Materials, which added \$121 million, this inventory was acquired through the issuance of preferred stock. Cash outflows for inventory declined by \$120 million in the 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.

#### 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, 2015, 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 2015, we made voluntary cash contributions of \$65 million to our domestic defined benefit pension plan and \$35 million to our international pension plans. 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. Although we will not be subject to any mandatory contributions in 2016, we anticipate making voluntary cash contributions of up to \$62 million to our U.S. pension plan and up to \$36 million to our international pension plans in 2016.

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

Restructuring

For the year ended December 31, 2015, we did not record significant restructuring, impairment and other charges or reversals. Cash expenditures for restructuring activities were \$40 million.

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 of approximately \$39 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 of \$35 million.

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,	
	2015	2014
Working capital	\$ 5,455	\$ 7,914
Current ratio	2.9:1	4.4:1
Trade accounts receivable, net of allowances	\$ 1,372	\$ 1,501
Days sales outstanding	55	56
Inventories	\$ 1,385	\$ 1,322
Inventory turns	4.0	4.2
Days payable outstanding (1)	42	41
Long-term debt	\$ 3,910	\$ 3,227
Total debt to total capital	19%	13%

(1) Includes trade payables only.

Credit Ratings

As of February 12, 2016, our credit ratings were as follows:

RATING AGENCY	Rating	Outlook
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	long-term debt	last update
Fitch	BBB+	Stable October 29, 2015
Standard & Poor's	BBB+	Stable October 27, 2015
Moody's	Baa1	Stable October 28, 2015

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### Management Assessment of Liquidity

We ended the fourth quarter of 2015 with approximately \$4.6 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 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 71% of the consolidated amount was held outside of the United States at December 31, 2015, 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 financing strategies to ensure that our worldwide cash is available in the locations in which it is needed.

To manage interest rate exposure, the Company, from time to time, may enter into interest rate swap agreements. In the first quarter of 2015, the interest rate swaps that were entered into in the fourth quarter of 2014 to hedge future interest payments from an anticipated debt issuance were settled prior to the issuance of the anticipated debt. Because the Company continued to anticipate that the debt issuance would occur, it entered into two interest rate swap agreements in the first quarter of 2015 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, and were settled on May 5, 2015. Concurrent with the settlement of the interest rate swap agreements, Corning issued \$375 million of 1.50% senior unsecured notes that mature on May 8, 2018 and \$375 million of 2.90% senior unsecured notes that mature on May 15, 2022.

Corning also has a commercial paper program 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 vary, but may not exceed 390 days from the date of issue. The interest rates 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, 2015, we had a balance of \$481 million in outstanding commercial paper under this program.

### Share Repurchase Programs

#### 2013 Repurchase Program

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 (the "2013 ASR agreement") with JP Morgan Chase Bank, National Association, London Branch ("JPMC"). Under the 2013 ASR agreement, 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 2013 ASR agreement was completed. Corning received an additional 10.5 million shares on January 31, 2014 to settle the 2013 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 2013 ASR agreement, less a discount.

In addition to the shares repurchased through the 2013 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.

#### March 2014 Repurchase Program

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 "March 2014 Repurchase Program"), Corning entered into an ASR agreement (the "2014 ASR agreement") with Citibank N.A. ("Citi"). Under the 2014 ASR agreement, 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. The 2014 ASR agreement was completed on May 28, 2014, and Corning received an additional 8.7 million shares to settle the 2014 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 2014 ASR agreement, less a discount.

In addition to the shares repurchased through the 2014 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 March 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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### December 2014 Repurchase Program

On December 3, 2014, Corning's Board of Directors authorized the repurchase of up to \$1.5 billion shares of common stock (the "December 2014 Repurchase Program") between the date of announcement and December 31, 2016. In the year ended December 31, 2015, we repurchased 70.4 million shares of common stock for approximately \$1.5 billion as part of the December 2014 Repurchase Program, which was completed in the third quarter of 2015.

### 2015 Repurchase Programs

On July 15, 2015, Corning's Board of Directors approved a \$2 billion share repurchase program (the "July 2015 Repurchase Program") and on October 26, 2015 the Board of Directors authorized an additional \$4 billion share repurchase program (together with the July 2015 Repurchase Program, the "2015 Repurchase Programs"). The 2015 Repurchase Programs permit Corning to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, advance repurchase agreements and/or other arrangements.

On October 28, 2015, Corning entered into an ASR with Morgan Stanley & Co. LLC ("Morgan Stanley") to repurchase \$1.25 billion of Corning's common stock (the "2015 ASR agreement"). The 2015 ASR agreement was executed under the July 2015 Repurchase Program. Under the 2015 ASR agreement, Corning made a \$1.25 billion payment to Morgan Stanley on October 29, 2015 and received an initial delivery of approximately 53.1 million shares of Corning common stock from Morgan Stanley on the same day. The payment to Morgan Stanley was recorded as a reduction to shareholders' equity, consisting of a \$1 billion increase in treasury stock, which reflects the value of the initial 53.1 million shares received upon execution, and a \$250 million decrease in other-paid-in capital, which reflects the value of the stock held back by Morgan Stanley pending final settlement. On January 19, 2016, the 2015 ASR agreement was completed. Corning received an additional 15.9 million shares on January 22, 2016 to settle the 2015 ASR agreement. In total, Corning purchased 69 million shares based on the average daily volume weighted-average price of Corning's common stock during the term of the 2015 ASR agreement, less a discount.

In addition to the shares repurchased through the 2015 ASR agreement, we repurchased 98 million shares of common stock on the open market for approximately \$2 billion, as part of the December 2014 Repurchase Program and the July 2015 Repurchase Program, resulting in a total of 151 million shares repurchased during 2015.

### 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 2016 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, 2015, our leverage using this measure was 19% 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, 2015, 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.

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### Purchased Collars, Zero-Cost 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. Beginning in the second quarter of 2013 and continuing throughout 2015, Corning entered into a series of zero cost average rate collars and average rate forwards with no associated premium to hedge the translation impact of Japanese yen on Corning's projected 2015, 2016 and 2017 net income. Additionally, in January 2016, Corning took advantage of the stronger yen to extend its foreign exchange hedging program to hedge a significant portion of its projected yen exposure for the period 2018 through 2022. In the years ended December 31, 2015, 2014 and 2013, we recorded pre-tax net gains of \$113 million, \$1,406 million and \$435 million, respectively, related to changes in the fair value of these derivative instruments. Included in these amounts are realized gains of \$686 million, \$280 million and \$67 million, respectively. The gross notional value outstanding for purchase collars and average rate forwards which hedge our exposure to the Japanese yen at December 31, 2015, 2014 and 2013 was \$8.3 billion, \$9.8 billion and \$6.8 billion, respectively.

Beginning in the second quarter of 2014, and continuing throughout 2015, we entered into a portfolio of zero-cost collars to hedge our translation exposure resulting from movements in the South Korean won and its impact on our net earnings. In the years ended December 31, 2015 and 2014, we recorded a pre-tax net loss of \$36 million and \$37 million, respectively, related to changes in the fair value of these zero-cost collars. Included in these amounts are realized losses of \$33 million and \$6 million, respectively. These zero-cost collars have a gross notional value outstanding at December 31, 2015 and 2014 of \$3.3 billion and \$2.3 billion, respectively.

In the first quarter of 2015, in response to the significant strengthening of the U.S. dollar versus the euro, we entered into a portfolio of zero-cost collars and average rate forwards with an associated premium to hedge against our euro translation exposure. In the year ended December 31 2015, we recorded a net pre-tax gain of \$3 million. These collars have a gross notional amount of \$345 million at December 31, 2015.

These purchased collars, zero-cost collars, zero cost average rate collars and average rate forwards are not designated as accounting hedges, and changes in their fair value are recorded in earnings in the foreign currency hedge gain, 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 1 year	1 to 3 years	3 to 5 years	5 years and thereafter
Performance bonds and guarantees	\$ 92	\$ 25	\$ 6	\$ 1	\$ 60
Stand-by letters of credit (1)	47	44			3
Credit Facility to Equity Company	31	27			4
Loan guarantees	14				14
Subtotal of commitment expirations per period	\$ 184	\$ 96	\$ 6	\$ 1	\$ 81
Purchase obligations (6)	\$ 220	\$ 106	\$ 77	\$ 33	\$ 4
Capital expenditure obligations (2)	298	298			
Total debt (3)	4,122	565	625	550	2,382
Interest on long-term debt (4)	2,385	165	316	280	1,624
Capital leases and financing obligations (3)	355	7	10	7	331
Imputed interest on capital leases and financing obligations	240	19	37	36	148
Minimum rental commitments	573	49	110	77	337
Uncertain tax positions (5)	58				
Subtotal of contractual obligation payments due by period (5)	8,251	1,209	1,175	983	4,826
Total commitments and contingencies (5)	\$ 8,435	\$ 1,305	\$ 1,181	\$ 984	\$ 4,907

(1) At December 31, 2015, \$38 million of the \$47 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, 2015, \$58 million was included on our balance sheet related to uncertain tax positions. Of this amount, we are unable to estimate when any 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 17 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, 2015 and 2014, Corning had accrued approximately \$37 million (undiscounted) and \$43 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, 2015 and December 31, 2014, the carrying value of precious metals was higher than the fair market value by \$976 million and \$222 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.

### 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. We test for goodwill impairment at the reporting unit level and our reporting units are the operating segments or the components of operating segments which constitute businesses for which discrete financial information is available and is regularly reviewed by segment management.

Corning has recorded goodwill in the Display Technologies, Optical Communications, Specialty Materials, Life Sciences and All Other operating segments. On a quarterly basis, management performs a qualitative assessment of factors in each reporting unit within these operating segments 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.

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.

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### Display Technologies

Goodwill for the Display Technologies segment is tested at the reporting unit level, which is also the operating segment level consisting of two components. For the purposes of the annual goodwill impairment assessment, we have aggregated these two components into one reporting unit based upon their similar economic characteristics. On a quarterly basis in 2015, 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.

In addition to assessing qualitative factors each quarter, we performed a quantitative goodwill recoverability test in 2015 for this reporting unit. A discount rate of 5.8% and a growth rate of 1% were used in 2015. The results of our impairment test indicated that the fair value of the reporting unit exceeded its book value by a significant amount, and as such, further goodwill impairment testing was not necessary. We determined a range of discount rates between 3.8% and 7.8% and growth rates between 0% and 3% would not have affected our conclusion.

### Optical Communications

Goodwill for the Optical Communications segment is tested at the reporting unit level, which is also the operating segment level consisting of two components.. For the purposes of the annual goodwill impairment assessment, we have aggregated these two components into one reporting unit based upon their similar economic characteristics. On a quarterly basis in 2015, 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 2015 for this reporting unit. A discount rate of 5.6% and a growth rate of 3% were used in 2015. The results of our impairment test indicated that the fair value of the reporting unit exceeded its book value by a significant amount, and as such, further goodwill impairment testing was not necessary. We determined a range of discount rates between 3.6% and 7.6% and growth rates between 0% and 3% 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 the goodwill is the result of transactions associated with a certain business within this operating segment. On a quarterly basis in 2015, 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 2015 for this reporting unit. A discount rate of 5.8% and a growth rate of 3% were used in 2015. The results of our impairment test indicated that the fair value of the reporting unit exceeded its book value by a significant amount, and as such, further goodwill impairment testing was not necessary. We determined a range of discount rates between 3.8% and 7.8% and growth rates between 0% and 3% would not have affected our conclusion.

### 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 2015, 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 2015 for this reporting unit. A discount rate of 6% and a growth rate of 3% were used in 2015. The results of our impairment test indicated that the fair value of the reporting unit exceeded its book value by a significant amount, and as such, further goodwill impairment testing was not necessary. We determined a range of discount rates between 4% and 8% and growth rates between 0% and 3% would not have affected our conclusion.

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### All Other

All Other segment is comprised of various operating segments and corporate investments that do not meet the quantitative threshold for separate reporting. Goodwill for the All Other segment is tested at the reporting unit level, which is also the operating segment level. For the purposes of the annual goodwill impairment assessment, we have identified two reporting units in this segment that require an assessment of their goodwill. On a quarterly basis in 2015, management performed a qualitative assessment of factors and determined there had not been any triggering events which would indicate that the reporting units' fair value is less than the carrying amount.

In addition to assessing qualitative factors each quarter, we performed a quantitative goodwill recoverability test in 2015 for this reporting unit. A discount rate of 7.4% and a growth rate of 3% were used in 2015. The results of our impairment test indicated that the book value of one of the reporting units exceeded its fair value by 80%. We determined a range of discount rates between 5.4% and 9.4% and growth rates between 0% and 3% would not have affected our conclusion. Corning concluded that a Step 2 analysis was required to measure the impairment loss for this reporting unit.

Our Step 2 test consisted of identifying the underlying net assets in the reporting unit, allocating the implied purchase price to the asset and liabilities of the reporting unit and the calculation of the implied fair value of goodwill and the resulting impairment loss. In December 2015, we recorded a goodwill impairment loss of \$29 million related to this reporting unit.

### 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.

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.

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## 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 (Acquisitions) to the Consolidated Financial Statements for additional information.

On December 11, 2015, Corning announced its intention to exchange its 50% equity interest in Dow Corning Corporation for 100% of the stock of a newly formed entity that will become a wholly-owned subsidiary of Corning Incorporated. The newly formed entity will hold approximately 40% ownership in Hemlock Semiconductor Group and approximately \$4.8 billion in cash. Upon completion of this strategic realignment, which is expected to close during the first half of 2016, Dow Chemical, an equal owner of Dow Corning with Corning since 1943, will assume 100% ownership of Dow Corning.

At December 31, 2015 and 2014, the carrying value of our equity method investments was \$1.9 billion and \$1.8 billion, respectively, with our largest equity method investment, Dow Corning, comprising 78% and 74%, respectively, 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, 2015 and 2014, 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.

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. Included in our forward exchange contracts are

foreign currency hedges that hedge our translation exposure resulting from movements in the Japanese yen, South Korean won and euro. These contracts are not designated as accounting hedges, and changes in their fair value are recorded in earnings in the foreign currency hedge gain, net line of the Consolidated Statements of Income. 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.

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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.

On December 29, 2015, Corning and Samsung Display entered into an agreement pursuant to which Corning exchanged the amount of contingent consideration in excess of \$300 million (net present fair value: \$246 million), as consideration for the incremental fair value associated with a number of commercial agreements, including the amendment of its long-term supply agreement with Samsung Display. As of December 29, 2015, the net present fair value of the contingent consideration receivable was \$458 million. The net present fair value of the commercial benefit associated with the amended long-term supply agreement exceeds the value exchanged by Corning pursuant to this agreement (net present fair value: \$212 million). Consequently, Corning reclassified this amount to the Other asset line of the Consolidated Balance Sheet and will amortize the amount over the remaining term of the long-term supply agreement as a reduction in revenue.

Additionally, as a result of the acquisitions of iBwave Solutions Inc. and the fiber-optics business of Samsung Electronics Co., Ltd. in the first quarter of 2015, the Company has contingent consideration that was measured using unobservable (Level 3) inputs. As of December 31, 2015, the fair value of the contingent consideration payable is \$10 million.

There were no significant financial assets and liabilities measured on a nonrecurring basis during the twelve months ended December 31, 2015.

### 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. 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.

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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 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.

Prior to the December 31, 2015 valuation of its defined benefit pension and OPEB plans, Corning used the traditional, single weighted-average discount rate approach to develop the obligation, interest cost and service cost components of net periodic benefit cost for its defined benefit pension and OPEB plans. The individual spot rates from the yield curve are used in measuring the pension plan projected benefit obligation (PBO) or OPEB plan accumulated postretirement benefit obligation (APBO) at the measurement date. The benefit obligation is effectively calculated as the aggregate present value at the measurement date of each future benefit payment related to past service, with each payment discounted using a spot rate from a high-quality corporate bond yield curve that matches the duration of the benefit payment. Under Corning's traditional, single weighted-average discount rate approach, a single weighted-average rate is developed from the approach described above and rounded to the nearest 25 basis points. Traditionally, the weighted-average discount rate is determined at the plan measurement date, based on the same projected future benefit payments used in developing the benefit obligation. The traditional single weighted-average discount rate represents the constant annual rate that would be required to discount all future benefit payments related to past service from the date of expected future payment to the measurement date such that the aggregate present value equals the benefit obligation.

Beginning with the December 31, 2015 valuation of its defined benefit pension and OPEB plans, Corning is changing its methodology of determining the service and interest cost components of net periodic pension and other postretirement benefit costs to a more granular approach. Under the new approach, the cash flows from each applicable pension and OPEB plan are used to directly calculate the benefit obligation, service cost and interest cost using the spot rates from the applicable yield curve.

Moving to a more granular approach has a limited impact on the determination of the respective benefit obligations. The only impacts will be as a result of the elimination of the rounding of the discount rate that occurred in the traditional approach and the use of specific cash flows for Corning's non-qualified pension plans, while separately applying the yield curve to each separate OPEB plan instead of aggregating the OPEB plan cash flows. This change will result in a decrease in the interest cost and service cost components of net periodic pension and OPEB costs. For the year ended December 31, 2016, net periodic pension and OPEB costs will be lower by approximately \$28 million and \$6 million, respectively, due to this change. For Corning's pension plans, this change will increase the immediate recognition of actuarial losses (or decrease the immediate recognition of actuarial gains), due to Corning's previous election to immediately recognize actuarial gains and losses outside of the corridor. For Corning's OPEB plans, this change will increase the accumulated other comprehensive income (AOCI) account balance due to the accumulation of lower actuarial gains or higher actuarial losses. Over time, the amortization of the

actuarial losses from AOCI will begin to reduce the savings from the lower interest cost and service cost.

This change is a change in accounting estimate and therefore applied prospectively (beginning with the next measurement date of December 31, 2015). No restatement of prior periods is required.

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The following table presents our actual and expected return on assets, as well as the corresponding percentage, for the years ended 2015, 2014 and 2013:

(In millions)	2015	December 31, 2014	2013
Actual return on plan assets – Domestic plans	\$ (111)	\$ 287	\$ 65
Expected return on plan assets – Domestic plans	166	159	158
Actual return on plan assets – International plans	3	68	6
Expected return on plan assets – International plans	12	15	11

	2015	December 31, 2014	2013
Weighted-average actual and expected return on assets:			
Actual return on plan assets – Domestic plans	(4.23%)	10.82%	2.67%
Expected return on plan assets – Domestic plans	6.00%	6.25%	6.00%
Actual return on plan assets – International plans	0.59%	17.15%	2.73%
Expected return on plan assets – International plans	2.97%	4.12%	3.73%

As of December 31, 2015, the Projected Benefit Obligation (PBO) for U.S. pension plans was \$3,161 million.

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

Change in assumption	Effect on 2016 pre-tax pension expense	Effect on December 31, 2015 PBO
25 basis point decrease in each spot rate	- 2 million	+ 87 million
25 basis point increase in each spot rate	+ 2 million	- 83 million
25 basis point decrease in expected return on assets	+ 6 million	
25 basis point increase in expected return on assets	- 6 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, 2015, a 25 basis point decrease in each spot rate would decrease stockholders' equity by \$110 million before tax, and a 25 basis point increase in each spot rate would increase stockholders' equity by \$105 million. In addition, the impact of greater than a 25 basis point decrease in each spot rate would not be proportional to the first 25 basis point decrease in each spot rate.

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

Change in assumption	Effect on 2016 pre-tax OPEB expense	Effect on December 31, 2015 APBO*
25 basis point decrease in each spot rate	+ 0 million	+ 23 million
25 basis point increase in each spot rate	- 0 million	- 22 million

\* Accumulated Postretirement Benefit Obligation (APBO).

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.

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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 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 and 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 South 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. 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, 2015, 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 \$901 million compared to \$1,080 million at December 31, 2014. 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 \$741 million compared to \$959 million at December 31, 2014. 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 \$99 million compared to \$79 million at December 31, 2014.

Because we derive approximately 70% 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 2016 will remain constant at January 2016 levels. As an example of the impact that changes in foreign currency exchange rates could have on our financial results, we compare 2015 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 2015 net sales of approximately \$309 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 2015 net sales of approximately \$5 million and \$92 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 2015 net income attributable to Corning Incorporated of approximately \$188 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 2015 net income attributable to Corning Incorporated of approximately \$67 million and \$22 million, respectively.

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Interest Rate Risk Management

It is our policy to conservatively manage our exposure to changes in interest rates. To manage interest rate exposure, the Company, from time to time, enters into interest rate swap agreements. We are currently 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.

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, 2015. The effectiveness of Corning’s internal control over financial reporting as of December 31, 2015, 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

The sections entitled “Proposal 1 Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Committees” in our Definitive Proxy Statement relating to our Annual Meeting of Shareholders to be held on April 28, 2016, are incorporated by reference in this Annual Report on Form 10-K. Information regarding executive officers is presented in Item I of this Annual Report on Form 10-K under the caption “Executive Officers of the Registrant.”

Code of Ethics

Our Board of Directors adopted (i) the Code of Ethics for the Chief Executive Officer and Financial Executives (Code of Ethics) and (ii) the Code of Conduct for Directors and Executive Officers, which supplement our Code of Conduct that governs all employees and directors. These Codes have been in existence for more than ten years. The Code of Ethics applies to our Chief Executive Officer, Chief Financial Officer, Controller and other persons performing similar functions. During 2015, 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 <http://www.corning.com/worldwide/en/about-us/investor-relations/codes-of-conduct-ethics.html>. 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.

Item 11. Executive Compensation

The sections entitled “Compensation Discussion and Analysis” and “Director Compensation” in our Definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 28, 2016, 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 “Beneficial Ownership of Directors and Officers” and “Beneficial Ownership of Corning’s Largest Shareholders” in our Definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 28, 2016, are incorporated by reference in this Annual Report on Form 10-K.

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## Equity Compensation Plan Information

The following table shows the total number of outstanding stock options and shares available for other future issuances of options under our existing equity compensation plans as of December 31, 2015, including the 2010 Equity Plan for Non-Employee Directors and 2012 Long-Term Incentive Plan:

Plan category	A Number of securities to be issued upon exercise of outstanding options, warrants and rights	B Weighted-average exercise price of outstanding options, warrants and rights	C Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A)
Equity compensation plans approved by security holders (1)	42,738,000	\$19.40	71,841,896
Equity compensation plans not approved by security holders			
Total	42,738,000	\$19.40	71,841,896

(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.

## 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 28, 2016, are incorporated by reference in this Annual Report on Form 10-K.

## Item 14. Principal Accounting Fees and Services

The sections entitled “Fees Paid to Independent Registered Public Accounting Firm” and “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 28, 2016, are incorporated by reference in this Annual Report on Form 10-K.

In June 2015, 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:

		Page
1.	Financial statements	<u>86</u>
2.	Financial statement schedule:	
	(i) Valuation accounts and reserves	<u>143</u>
	See separate index to financial statements and financial statement schedules	

(b) Exhibits filed as part of this report:

2.1	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.
2.2	Transaction Agreement, dated December 10, 2015, by and between Corning Incorporated, The Dow Chemical Company, Dow Corning Corporation and HS Upstate Inc. (Incorporated by reference to Exhibit 2.1 of Corning's Form 8-K filed on December 11, 2015).
2.3	Assignment Agreement, dated as of December 29, 2015, between Samsung Display Co., Ltd., Corning Incorporated, Corning Precision Materials Co., Ltd., and Corning Luxembourg S.à.r.l., Corning Hungary Data Services Limited Liability Company, Corning Japan K.K., and Samsung Corning Advanced Glass LLC (Incorporated by reference to Exhibit 2.1 of Corning's Form 8-K filed on December 29, 2015).
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)	Amended and Restated By-Laws of Corning Incorporated, effective as of December 7, 2015 (Incorporated by reference to Exhibit 3(ii) of Corning's Form 8-K filed December 7, 2015).

- 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 Corning'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 Corning'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).

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- 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).
- 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).

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- 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).
- 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).

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- 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).

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- 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).
- 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).

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- 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 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).
- 10.60 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).
- 10.61 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).
- 10.62 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).
- 10.63 Form of Corning Incorporated Incentive Stock Rights Agreement, effective January 1, 2015. (Incorporated by reference to Exhibit 10.64 of Corning's Form 10-K filed February 13, 2015).

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- 10.64 Form of Corning Incorporated Cash Performance Unit Agreement, effective January 1, 2015 (Incorporated by reference to Exhibit 10.65 of Corning's Form 10-K filed February 13, 2015).
- 10.65 Form of Officer Severance Agreement dated as of January 1, 2015 between Corning Incorporated and each of the following individuals: Martin J. Curran; Eric S. Musser; Christine M. Pambianchi; and R. Tony Tripeny (Incorporated by reference to Exhibit 10.1 of Corning's Form 10-Q filed July 30, 2015).
- 10.66 Form of Change in Control Agreement dated as of January 1, 2015 between Corning Incorporated and each of the following individuals: Martin J. Curran; Eric S. Musser; Christine M. Pambianchi; and R. Tony Tripeny (Incorporated by reference to Exhibit 10.2 of Corning's Form 10-Q filed July 30, 2015).
- 10.67 Master Confirmation – Uncollared Accelerated Share Repurchase, dated October 28, 2015 by and between Morgan Stanley & Co. LLC and Corning Incorporated.
- 10.68 Tax Matters Agreement, dated December 10, 2015, by and between Corning Incorporated, The Dow Chemical Company, Dow Corning Corporation and HS Upstate Inc. (Incorporated by reference to Exhibit 1.2 of Corning's Form 8-K filed on December 11, 2015).
- 10.69 Form of Corning Incorporated Incentive Stock Rights Agreement, effective January 1, 2016.
- 10.70 Form of Corning Incorporated Cash Performance Unit Agreement, effective January 1, 2016.
- 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, 2015.
- 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:

1.	<u>Financial Statements of Dow Corning Corporation for the years ended December 31, 2015, 2014 and 2013</u>	<u>145</u>
2.	<u>Financial Statements of Samsung Corning Precision Materials Co., Ltd. for the year ended December 31, 2013</u>	<u>185</u>

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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	Chairman of the Board of	February 12,
	(Wendell P. Weeks)	Directors, Chief	2016
		Executive Officer and	
		President	

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 (Wendell P. Weeks)	Chairman of the Board of Directors, Chief Executive Officer and President (Principal Executive Officer)	February 12, 2016
/s/ R. Tony Tripeny (R. Tony Tripeny)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 12, 2016
/s/ Edward A. Schlesinger (Edward A. Schlesinger)	Vice President and Corporate Controller (Principal Accounting Officer)	February 12, 2016
* (Donald W. Blair)	Director	February 12, 2016
* (Stephanie A. Burns)	Director	February 12, 2016
* (John A. Canning, Jr.)	Director	February 12, 2016
* (Richard T. Clark)	Director	February 12, 2016
*	Director	February 12, 2016

(Robert F. Cummings, Jr.)

\*  
(Deborah A. Henretta)

Director

February 12,  
2016

\*  
(Daniel P. Huttenlocher)

Director

February 12,  
2016

\*  
(Kurt M. Landgraf)

Director

February 12,  
2016

\*  
(Kevin J. Martin)

Director

February 12,  
2016

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*	Director	February 12, 2016
(Deborah D. Rieman)		
*	Director	February 12, 2016
(Hansel E. Tookes II)		
*	Director	February 12, 2016
(Mark S. Wrighton)		

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

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2015 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, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015 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, 2015, 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.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it presents deferred income taxes in 2015.

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 12, 2016

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## Consolidated Statements of Income

Corning Incorporated and Subsidiary  
Companies

(In millions, except per share amounts)	Years ended December 31,		
	2015	2014	2013
Net sales	\$ 9,111	\$ 9,715	\$ 7,819
Cost of sales	5,458	5,663	4,495
Gross margin	3,653	4,052	3,324
Operating expenses:			
Selling, general and administrative expenses	1,523	1,211	1,126
Research, development and engineering expenses	769	815	710
Amortization of purchased intangibles	54	33	31
Restructuring, impairment and other charges (Note 2)		71	67
Asbestos litigation (credit) charges (Note 7)	(15)	(9)	19
Operating income	1,322	1,931	1,371
Equity in earnings of affiliated companies (Note 7)	299	266	547
Interest income	21	26	8
Interest expense	(140)	(123)	(120)
Transaction-related gain, net (Note 8)		74	
Foreign currency hedge gain, net	85	1,411	622
Other (expense) income, net	(101)	(17)	45
Income before income taxes	1,486	3,568	2,473
Provision for income taxes (Note 6)	(147)	(1,096)	(512)
Net income attributable to Corning Incorporated	\$ 1,339	\$ 2,472	\$ 1,961
Earnings per common share attributable to Corning Incorporated:			
Basic (Note 18)	\$ 1.02	\$ 1.82	\$ 1.35
Diluted (Note 18)	\$ 1.00	\$ 1.73	\$ 1.34
Dividends declared per common share (1)	\$ 0.36	\$ 0.52	\$ 0.39

(1) The first quarter 2015 dividend was declared on December 3, 2014.

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,		
	2015	2014	2013
Net income attributable to Corning Incorporated	\$ 1,339	\$ 2,472	\$ 1,961
Foreign currency translation adjustments and other	(590)	(1,073)	(682)
Net unrealized gains (losses) on investments	1	(1)	2
Unamortized gains (losses) and prior service (costs) credits for postretirement benefit plans	121	(281)	392
Net unrealized (losses) gains on designated hedges	(36)	4	(24)
Other comprehensive loss, net of tax (Note 17)	(504)	(1,351)	(312)
Comprehensive income attributable to Corning Incorporated	\$ 835	\$ 1,121	\$ 1,649

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,	
	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,500	\$ 5,309
Short-term investments, at fair value (Note 3)	100	759
Total cash, cash equivalents and short-term investments	4,600	6,068
Trade accounts receivable, net of doubtful accounts and allowances - \$48 and \$47	1,372	1,501
Inventories, net of inventory reserves - \$146 and \$127 (Note 5)	1,385	1,322
Deferred income taxes (Note 6)		248
Other current assets (Note 11 and 15)	912	1,099
Total current assets	8,269	10,238
Investments (Note 7)	1,975	1,801
Property, plant and equipment, net of accumulated depreciation - \$9,188 and \$8,332 (Note 9)	12,648	12,766
Goodwill, net (Note 10)	1,380	1,150
Other intangible assets, net (Note 10)	706	497
Deferred income taxes (Note 6)	2,056	1,889
Other assets (Note 8, 11 and 15)	1,513	1,722
Total Assets	\$ 28,547	\$ 30,063
<b>Liabilities and Equity</b>		
Current liabilities:		
Current portion of long-term debt and short-term borrowings (Note 12)	\$ 572	\$ 36
Accounts payable	934	997
Other accrued liabilities (Note 11 and 14)	1,308	1,291
Total current liabilities	2,814	2,324
Long-term debt (Note 12)	3,910	3,227
Postretirement benefits other than pensions (Note 13)	718	814
Other liabilities (Note 11 and 14)	2,242	2,046
Total liabilities	9,684	8,411
Commitments and contingencies (Note 14)		
Shareholders' equity (Note 17):		
Convertible preferred stock, Series A – Par value \$100 per share; Shares authorized 3,100; Shares issued: 2,300	2,300	2,300
Common stock – Par value \$0.50 per share; Shares authorized: 3.8 billion; Shares issued: 1,681 million and 1,672 million	840	836

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Additional paid-in capital – common stock	13,352	13,456
Retained earnings	13,832	13,021
Treasury stock, at cost; shares held: 551 million and 398 million	(9,725)	(6,727)
Accumulated other comprehensive loss	(1,811)	(1,307)
Total Corning Incorporated shareholders' equity	18,788	21,579
Noncontrolling interests	75	73
Total equity	18,863	21,652
 Total Liabilities and Equity	 \$ 28,547	 \$ 30,063

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,		
	2015	2014	2013
Cash Flows from Operating Activities:			
Net income	\$ 1,339	\$ 2,472	\$ 1,961
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,130	1,167	971
Amortization of purchased intangibles	54	33	31
Restructuring, impairment and other charges		71	67
Stock compensation charges	46	58	54
Equity in earnings of affiliated companies	(299)	(266)	(547)
Dividends received from affiliated companies	143	1,704	630
Deferred tax provision	54	612	189
Restructuring payments	(40)	(39)	(35)
Customer deposits	197		
Employee benefit payments (in excess of) less than expense	(52)	(52)	52
Gains on foreign currency hedges related to translated earnings	(80)	(1,369)	(435)
Unrealized translation losses on transactions	268	431	96
Contingent consideration fair value adjustment	(13)	(249)	
Changes in certain working capital items:			
Trade accounts receivable	162	(16)	(29)
Inventories	(77)	2	(247)
Other current assets	(57)	(16)	34
Accounts payable and other current liabilities	(146)	(3)	(23)
Other, net	180	169	18
Net cash provided by operating activities	2,809	4,709	2,787
Cash Flows from Investing Activities:			
Capital expenditures	(1,250)	(1,076)	(1,019)
Acquisitions of businesses, net of cash (paid) received	(732)	66	(68)
Proceeds from sale of a business	12		
Investment in unconsolidated entities	(33)	(109)	(526)
Proceeds from loan repayments from unconsolidated entities	6	23	8
Short-term investments – acquisitions	(969)	(1,398)	(1,406)
Short-term investments – liquidations	1,629	1,167	2,026
Premium on purchased collars			(107)
Realized gains on foreign currency hedges related to translated earnings	653	361	87
Other, net	(1)	4	1
Net cash used in investing activities	(685)	(962)	(1,004)
Cash Flows from Financing Activities:			
Retirement of long-term debt, net			(498)
	(12)	(52)	(71)

Net repayments of short-term borrowings and current portion of long-term debt

Proceeds from issuance of long-term debt	745		248
Proceeds from issuance of short-term debt, net	3	29	
Proceeds from issuance of commercial paper	481		
(Payments) proceeds from the settlement of interest rate swap agreements	(10)		33
Principal payments under capital lease obligations	(6)	(6)	(7)
Proceeds from issuance of preferred stock (1)		400	
Proceeds received for asset financing and related incentives, net	1	1	276
Payments to acquire noncontrolling interest			(47)
Proceeds from the exercise of stock options	102	116	85
Repurchases of common stock for treasury	(3,228)	(2,483)	(1,516)
Dividends paid	(679)	(591)	(566)
Net cash used in financing activities	(2,603)	(2,586)	(2,063)
Effect of exchange rates on cash	(330)	(556)	(4)
Net (decrease) increase in cash and cash equivalents	(809)	605	(284)
Cash and cash equivalents at beginning of year	5,309	4,704	4,988
Cash and cash equivalents at end of year	\$ 4,500	\$ 5,309	\$ 4,704

- (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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Corning Incorporated and Subsidiary  
Companies

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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
Net income				1,339			1,339	9	1,348
Other comprehensive loss						(504)	(504)	(1)	(505)
Purchase of common stock for treasury			(250)		(2,978)		(3,228)		(3,228)
Shares issued to benefit plans and for option exercises		4	146		(1)		149		149
Dividends on shares				(528)			(528)		(528)
Other, net					(19)		(19)	(6)	(25)
Balance, December 31, 2015	\$ 2,300	\$ 840	\$ 13,352	\$13,832	\$(9,725)	\$ (1,811)	\$ 18,788	\$ 75	\$18,863

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 (Acquisitions) to the Consolidated Financial Statements, 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 share-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.

Research and Development Costs

Research and development costs are charged to expense as incurred. Research and development costs totaled \$638 million in 2015, \$701 million in 2014 and \$613 million in 2013.

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 currency transaction losses for the years ended December 31, 2015, 2014 and 2013 were \$22 million, \$60 million and \$190 million, respectively.

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 accumulated 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.

Share-Based Compensation

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

The cost of share-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 share-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.

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

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

	Years ended December 31,		
	2015	2014	2013
Non-cash transactions:			
Accruals for capital expenditures	\$ 298	\$ 358	\$ 185
Cash paid for interest and income taxes:			
Interest (1)	\$ 178	\$ 171	\$ 182
Income taxes, net of refunds received	\$ 253	\$ 577	\$ 469

(1) Included in this amount are approximately \$35 million, \$40 million and \$35 million of interest costs that were capitalized as part of property, plant and equipment, net of accumulated depreciation, in 2015, 2014 and 2013, 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. government 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 (expense) income, net.

## 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) to 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.

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

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.

## 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.

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1. Summary of Significant Accounting Policies (continued)

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 Shareholders' 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.

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

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.

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

#### 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.

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 income as where the effects of the hedged item are recorded, typically sales, cost of sales or other (expense) income, net. 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 Foreign currency hedge gain, net line of the consolidated statement of income.

#### 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 originally was effective for annual periods beginning after December 15, 2016, including interim periods within that reporting period. This ASU shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption.

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

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606), deferring the effective date of ASU 2014-09 by one year. We can elect to adopt the provisions of ASU 2014-09 for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. We are currently assessing the adoption date and potential impact of adopting ASU 2014-09 on our financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740), requiring deferred tax assets and liabilities to be classified as noncurrent in a classified balance sheet. This ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted as of the beginning of an interim or annual reporting period. We have adopted this ASU prospectively for the year ended December 31, 2015. See Note 6 (Income Taxes) to the Consolidated Financial Statements for additional information.

## 2. Restructuring, Impairment and Other Charges

## 2015 Activity

For the year ended December 31, 2015, we did not record significant restructuring, impairment and other charges or reversals. Cash expenditures for restructuring activities were \$40 million.

## 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 of approximately \$39 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 January 1, 2014	Net Charges/ Reversals	Non cash adjustments	Cash payments	Reserve at December 31, 2014
Restructuring:					
Employee related costs	\$ 36	\$ 48	\$ (9)	\$ (31)	\$ 44
Other charges (credits)	8	1	(1)	(8)	
Total restructuring activity	\$ 44	\$ 49	\$ (10)	\$ (39)	\$ 44
Impairment charges and disposal of long-lived assets:		\$ 22			
Total restructuring, impairment and other charges		\$ 71			

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

## 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 cash expenditures of \$35 million.

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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, 2013 (in millions):

	Reserve at January 1, 2013	Net Charges/ Reversals	Non cash adjustments	Cash payments	Reserve at December 31, 2013
Restructuring:					
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.

## 3. Available-for-Sale Investments

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

	Amortized cost December 31,		Fair value December 31,	
	2015	2014	2015	2014
Bonds, notes and other securities:				
U.S. government and agencies	\$ 100	\$ 759	\$ 100	\$ 759
Total short-term investments	\$ 100	\$ 759	\$ 100	\$ 759
Asset-backed securities	\$ 37	\$ 42	\$ 33	\$ 38
Total long-term investments	\$ 37	\$ 42	\$ 33	\$ 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, 2015 (in millions):

Less than one year	\$ 70
Due in 1-5 years	30
Due in 5-10 years	
Due after 10 years	33
Total	\$133

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, 2015 and 2014:

(in millions)	Number of securities in a loss position	December 31, 2015			
		12 months or greater		Total	
		Fair value	Unrealized losses (1)	Fair value	Unrealized losses
Asset-backed securities	21	\$ 33	\$ (4)	\$ 33	\$ (4)
Total long-term investments	21	\$ 33	\$ (4)	\$ 33	\$ (4)

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

(in millions)	Number of securities in a loss position	December 31, 2014			
		12 months or greater		Total	
		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.

Proceeds from sales and maturities of short-term investments totaled \$1.6 billion, \$1.2 billion and \$2.0 billion in 2015, 2014 and 2013, respectively.

## 4. Significant Customers

For 2015, Corning's sales to Samsung Display Co. Ltd., a customer of our Display Technologies and Specialty Materials segments, represented 11% of the Company's consolidated net sales. 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.

## 5. Inventories, Net of Inventory Reserves

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

	December 31,	
	2015	2014
Finished goods	\$ 633	\$ 586
Work in process	264	255
Raw materials and accessories	200	202
Supplies and packing materials	288	279
Total inventories, net of inventory reserves	\$ 1,385	\$ 1,322

## 6. Income Taxes

Income before income taxes follows (in millions):

	Years ended December 31,		
	2015	2014	2013
U.S. companies	\$ 426	\$ 2,384	\$ 1,274
Non-U.S. companies	1,060	1,184	1,199
Income before income taxes	\$ 1,486	\$ 3,568	\$ 2,473

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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,		
	2015	2014	2013
Current:			
Federal	\$ 40	\$ 38	\$ 3
State and municipal	20	32	12
Foreign	33	414	308
Deferred:			
Federal	144	411	112
State and municipal	30	(9)	50
Foreign	(120)	210	27
Provision for income taxes	\$ 147	\$ 1,096	\$ 512

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,		
	2015	2014	2013
Statutory U.S. income tax rate	35.0%	35.0%	35.0%
State income tax (benefit), net of federal effect	0.1	4.9 (9)	0.6
Tax holidays (1)	(0.5)	(0.4)	(1.2)
Investment and other tax credits (2)	(1.7)	(0.3)	(2.0)
Rate difference on foreign earnings	(19.8)(11)	(8.3)	(8.1)(4)
Uncertain tax positions	4.3 (10)	(0.1)	0.2
Equity earnings impact (3)	(5.4)	(2.0)	(6.6)
Valuation allowances	(4.2)(7)	0.8 (6)	3.1 (5)
Other items, net	2.1	1.1 (8)	(0.3)
Effective income tax (benefit) rate	9.9%	30.7%	20.7%

- (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 2015, \$0.01 in 2014 and \$0.02 in 2013.
- (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 difference between 2013-2014 was due to 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 (9) below.
- (7)

- \$100 million tax benefit primarily related to change in judgment on the realizability of Germany and Japan deferred tax assets is partially offset with tax expense from U.S. state and China deferred tax allowance increases.
- (8) 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.
- (9) 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.
- (10) Unrecognized tax benefit reserve was primarily for tax positions taken related to transfer pricing of which \$31 million tax expense is related to out of period adjustments. The impact of these corrections is not material to any individual period previously presented. Since the Company operates in a number of countries with income tax treaties, an offsetting benefit was recorded where it believes it is more-likely-than-not to receive competent authority relief.
- (11) Tax benefit is primarily for excess foreign tax credits resulting from the inclusion of high-taxed foreign earnings in U.S. income and the income of Taiwan and Korea subsidiaries with lower statutory rates than the U.S. The amount of tax benefit in 2015 is relatively consistent with 2014. The change in the effective tax rate reconciliation percentage is driven by the significant decrease in the gain on our foreign currency translation hedges in 2015 versus 2014.

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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,	
	2015	2014
Loss and tax credit carryforwards	\$ 1,151	\$ 1,235
Other assets	69	69
Asset impairments and restructuring reserves	153	170
Postretirement medical and life benefits	276	312
Other accrued liabilities	265	246
Other employee benefits	505	473
Gross deferred tax assets	2,419	2,505
Valuation allowance	(238)	(298)
Total deferred tax assets	2,181	2,207
Intangible and other assets	(181)	(152)
Fixed assets	(284)	(299)
Total deferred tax liabilities	(465)	(451)
Net deferred tax assets	\$ 1,716	\$ 1,756

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

	December 31,	
	2015	2014
Current deferred tax assets		\$ 248
Non-current deferred tax assets	\$ 2,056	1,889
Current deferred tax liabilities		(5)
Non-current deferred tax liabilities	(340)	(376)
Net deferred tax assets	\$ 1,716	\$ 1,756

Corning adopted ASU 2015-17 prospectively. All deferred taxes are classified as non-current on the balance sheet as of December 31, 2015. Prior periods were not retrospectively adjusted.

Details on deferred tax assets for loss and tax credit carryforwards at December 31, 2015 follow (in millions):

	Amount	Expiration			
		2016-2020	2021-2025	2026-2035	Indefinite
Net operating losses	\$ 406	\$ 127	\$ 63	\$ 3	\$ 213
Tax credits	745	414	58	237	36
Totals as of December 31, 2015	\$ 1,151	\$ 541	\$ 121	\$ 240	\$ 249

The recognition of windfall tax benefits from share-based compensation deducted on the tax return is prohibited until realized through a reduction of income tax payable. Cumulative tax benefits totaling \$244 million will be recorded in additional paid-in-capital when credit carryforwards 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 carryforwards, 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 \$4.7 billion will be required to fully realize the U.S. deferred tax assets as of December 31, 2015, of which \$88 million will be required over the next 20 years to realize the deferred tax assets related to general business credits and \$1.9 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, 2015 and 2014 was \$238 million and \$298 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):

	2015	2014
Balance at January 1	\$ 10	\$ 15
Additions based on tax positions related to the current year		
Additions for tax positions of prior years	245	5
Reductions for tax positions of prior years	(1)	
Settlements and lapse of statute of limitations	(1)	(10)
Balance at December 31	\$ 253	\$ 10

The additions for tax positions of prior years include \$221 million for unrecognized tax benefits related to gross transfer pricing adjustments. See footnote (10) of the Reconciliation of the U.S. statutory income tax rate to our effective tax rate for continuing operations above for more information. Included in the balance at December 31, 2015 and 2014 are \$102 million and \$5 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 year ended December 31, 2015 the amount recognized in interest expense is \$6 million. In 2014 and 2013, the amounts recognized in interest expense and income were immaterial. The amounts accrued at December 31, 2015 and 2014 for the payment of interest and penalties was \$5 million and \$1 million, 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.

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 of limitations is closed for all returns prior to 2002, but the IRS can make adjustments for the return in which the NOL, U.S. foreign tax and research experimentation credit carryovers 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 (2014 onward) and South Korea (2015 onward).

Corning continues to indefinitely reinvest substantially all of its foreign earnings, with the exception of an immaterial amount 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, 2015, taxes have not been provided on approximately \$11 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 interest (1)	December 31,	
		2015	2014
Affiliated companies accounted for by the equity method			
Dow Corning	50%	\$ 1,483	\$ 1,325
All other	20% to 50%	422	452
		1,905	1,777
Other investments		70	24
Total		\$ 1,975	\$ 1,801

(1) Amounts reflect Corning's direct ownership interests in the respective affiliated companies at December 31, 2015. Corning does not control any of such entities.

## 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,		
	2015	2014	2013
Statement of operations (1)(2):			
Net sales	\$ 6,461	\$ 7,124	\$ 8,526
Gross profit	\$ 1,606	\$ 1,701	\$ 2,655
Net income	\$ 586	\$ 647	\$ 1,135
Corning's equity in earnings of affiliated companies	\$ 299	\$ 266	\$ 547
Related party transactions:			
Corning sales to affiliated companies	\$ 30	\$ 13	\$ 13
Corning purchases from affiliated companies	\$ 19	\$ 25	\$ 189
Corning transfers of assets, at cost, to affiliated companies (3)			\$ 37
Dividends received from affiliated companies	\$ 143	\$ 130	\$ 629
Royalty income from affiliated companies		\$ 2	\$ 57
Corning services to affiliates			\$ 2

	December 31,	
	2015	2014
Balance sheet:		
Current assets	\$ 5,228	\$ 5,432
Noncurrent assets	\$ 6,453	\$ 6,864
Short-term borrowings, including current portion of long-term debt	\$ 6	\$ 7
Other current liabilities	\$ 1,461	\$ 1,630
Long-term debt	\$ 800	\$ 950
Other long-term liabilities	\$ 4,557	\$ 5,143
Non-controlling interest	\$ 631	\$ 634

Related party transactions:

Balances due from affiliated companies	\$	11	\$	19
Balances due to affiliated companies	\$	1	\$	2

- (1) 2013 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 Schedules. Previous period amounts have been conformed for comparative purposes.
- (3) In 2013, Corning purchased machinery and equipment on behalf of Samsung Corning Precision Materials to support its capital expansion initiative.

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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, 2015, approximately \$2.0 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 strategic and financial 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 (Acquisitions), 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 were 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,		
	2015	2014	2013
Statement of operations:			
Net sales	\$ 5,649	\$ 6,221	\$ 5,711
Gross profit (1)	\$ 1,472	\$ 1,543	\$ 1,280
Net income attributable to Dow Corning	\$ 563	\$ 513	\$ 376
Corning's equity in earnings of Dow Corning	\$ 281	\$ 252	\$ 196
Related party transactions:			
Corning purchases from Dow Corning	\$ 15	\$ 15	\$ 22
Dividends received from Dow Corning	\$ 143	\$ 125	\$ 100
	December 31,		
	2015	2014	

Balance sheet:

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Current assets	\$ 4,511	\$ 4,712
Noncurrent assets	\$ 6,064	\$ 6,433
Short-term borrowings, including current portion of long-term debt	\$ 6	\$ 7
Other current liabilities	\$ 1,305	\$ 1,441
Long-term debt	\$ 785	\$ 945
Other long-term liabilities	\$ 4,539	\$ 5,125
Non-controlling interest	\$ 631	\$ 634

(1)Gross profit for the year ended December 31, 2015 includes R&D cost of \$233 million (2014: \$273 million and 2013: \$248 million).

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## 7. Investments (continued)

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. The Plan also includes releases for Corning and Dow Chemical 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 Litigation Facility (the “Settlement Facility”) to provide a means for tort claimants to settle or litigate their claims. 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. As of December 31, 2015, Dow Corning had recorded a reserve for breast implant litigation of \$291 million.

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, 2015, Dow Corning has estimated the potential liability to these creditors to be within the range of \$104 million to \$341 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 \$104 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.

On December 11, 2015, Corning announced its intention to exchange its 50% equity interest in Dow Corning Corporation for 100% of the stock of a newly formed entity that will become a wholly owned subsidiary of Corning Incorporated. The newly formed entity will hold approximately 40% ownership in Hemlock Semiconductor Group and approximately \$4.8 billion in cash. Upon completion of this strategic realignment, which is expected to close during the first half of 2016, Dow Chemical, an equal owner of Dow Corning with Corning since 1943, will assume 100% ownership of Dow Corning.

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"). On January 6, 2016, all pending appeals of the Plan were withdrawn and Corning expects that the Plan will become effective in April 2016.

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## Investments (continued)

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 will contribute its equity interest in PCC and PCE on the Plan’s Funding Effective Date, which is expected to occur in June 2016. Corning has the option to use its common stock 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 (the “non-PCC asbestos claims”). 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 claims (the “Stay”). The Stay remains in place as of the date of this filing; however, given that the Amended PCC Plan is now affirmed by the District Court and the Third Circuit Court of Appeals, Corning anticipates the Stay will be lifted in the second half of 2016. These non-PCC asbestos claims have been covered by insurance without material impact to Corning to date. As of December 31, 2015, Corning had received for these claims approximately \$19 million in insurance payments. When the Stay is lifted, these non-PCC asbestos claims will be allowed to proceed against Corning. In prior periods, Corning recorded in its estimated asbestos litigation liability an additional \$150 million for these and any future non-PCC asbestos claims.

## 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 \$678 million at December 31, 2015, compared with an estimate of liability of \$681 million at December 31, 2014. The \$678 million liability is comprised of \$238 million of the fair value of PCE, \$290 million for the fixed series of payments, and \$150 million for the non-PCC asbestos claims, all referenced in the preceding paragraphs. With respect to the PCE liability, at December 31, 2015 and 2014, the fair value of \$238 million and \$241 million of our interest in PCE significantly exceeded its carrying value of \$154 million and \$162 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 asbestos claims was estimated based upon industry data for asbestos claims since Corning does not have recent claim history due to the Stay 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, 2015 and 2014, Corning recorded asbestos litigation income of \$15 million and expense of \$9 million, respectively. At December 31, 2015, \$440 million of the obligation, consisting of the \$290 million for the fixed series of payments and \$150 million for the non-PCC asbestos claims, 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. The amount of the obligation related to the fair

value of PCE, \$238 million, was reclassified to a current liability in the fourth quarter of 2015, as the contribution of the assets is expected to be made within the next twelve months.

#### Non-PCC Asbestos Claims 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 has resolved these issues with a majority of its relevant insurers, and is vigorously contesting these cases with the remaining relevant insurers. Management is unable to predict the outcome of the litigation with these remaining insurers.

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## 8. Acquisitions

Year ended December 31, 2015

Corning completed five acquisitions in 2015. There have been minor adjustments during 2015 made to the preliminary allocation of the total purchase consideration related to working capital adjustments and true-up of the fair value of assets acquired for the acquisitions. Corning has completed the purchase accounting for four acquisitions. The purchase accounting related to one acquisition in the fourth quarter of 2015 has not been completed and amounts related to this acquisition are subject to change. A summary of the allocation of the total purchase consideration for the five acquisitions is as follows (in millions):

Cash and cash equivalents	\$ 2
Trade receivables	63
Inventory	47
Property, plant and equipment	117
Other intangible assets	286
Other current and non-current assets	27
Current and non-current liabilities	(117)
Total identified net assets	425
Purchase consideration	(725)
Goodwill (1)	\$ 300

(1) The goodwill recognized is partially deductible for U.S. income tax purposes. The goodwill was allocated to the Optical Communications and All Other reporting segment in the amount of \$213 million and \$87 million, respectively.

The total consideration related to the acquisitions primarily consisted of cash and, in two of the acquisitions, contingent consideration. The contingent consideration arrangements may require additional amounts to be paid in 2016 and 2017 based on projections of future revenues. The combined potential additional consideration is capped at \$28 million. The total fair value of the contingent consideration for the two acquisitions was valued at \$13 million as of the acquisition date and \$10 million as of December 31, 2015. The change in fair value of contingent consideration of \$3 million was recorded as an adjustment to selling, general and administrative expenses.

The goodwill generated from these acquisitions is primarily related to the value of the product portfolio and customer/distribution networks acquired, combined with Corning's existing business segments, as well as market participant synergies and other intangibles that do not qualify for separate recognition.

The acquired amortizable intangible assets have a weighted-average useful life of approximately 10 years.

Acquisition-related costs of \$11 million included in selling, general and administrative expense in the Consolidated Statements of Income for the year ended December 31, 2015 included costs for legal, accounting, valuation and other professional services. The Consolidated Financial Statements include the operating results of each business combination from the date of acquisition. Pro forma results of operations have not been presented because the effects of the acquisitions, individually and in the aggregate, were not material to Corning's financial results.

Year ended December 31, 2014

On January 15, 2014, Corning completed a series of strategic and financial agreements pursuant to the Framework Agreement with Samsung Display 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 of Samsung Corning Precision Materials 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. Acquisitions (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.

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.

On December 29, 2015, Corning and Samsung Display entered into an agreement pursuant to which Corning exchanged the amount of contingent consideration in excess of \$300 million (net present fair value: \$246 million), as consideration for the incremental fair value associated with a number of commercial agreements, including the amendment of its long-term supply agreement with Samsung Display. As of December 29, 2015, the net present fair value of the contingent consideration receivable was \$458 million. The net present fair value of the commercial benefit associated with the amended long-term supply agreement exceeds the value exchanged by Corning pursuant to this agreement (net present fair value: \$212 million). Consequently, Corning reclassified this amount to the other asset line of the Consolidated Balance Sheet and will amortize the amount over the remaining term of the long-term supply agreement as a reduction in revenue.

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 Display	Corning Incorporated	Samsung Corning Precision 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)

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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.

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## 8. Acquisitions (continued)

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.

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 of Samsung Corning Precision Materials. 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. Acquisitions (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 of Samsung Corning Precision Materials 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 of Samsung Corning Precision Materials, 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 \$1,343 million and \$1,761 million to net sales for the years ending December 31, 2015 and 2014, respectively. 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 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 of Samsung Corning Precision Materials 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 of Samsung Corning Precision Materials 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.





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## 8. Acquisitions (continued)

Unaudited Pro Forma Financial Information (in millions, except per share data):

	Twelve months ended December 31, 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 and December 31, 2013.

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

Property, plant and equipment, net of accumulated depreciation follow (in millions):

	December 31,	
	2015	2014
Land	\$ 438	\$ 458
Buildings	5,504	5,470
Equipment	14,688	13,848
Construction in progress	1,206	1,322
	21,836	21,098
Accumulated depreciation	(9,188)	(8,332)
Total	\$ 12,648	\$ 12,766

Approximately \$35 million, \$40 million and \$35 million of interest costs were capitalized as part of property, plant and equipment, net of accumulated depreciation, in 2015, 2014 and 2013, respectively.

Manufacturing equipment includes certain components of production equipment that are constructed of precious metals. At December 31, 2015 and 2014, the recorded value of precious metals totaled \$3 billion and \$3.1 billion, respectively. Depletion expense for precious metals in the years ended December 31, 2015, 2014 and 2013 was \$19 million, \$21 million and \$20 million, respectively.

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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, 2015 and 2014 were as follows (in millions):

	Optical Communications	Display Technologies	Specialty Materials	Life Sciences	All Other	Total
Balance at December 31, 2013	\$ 240	\$ 9	\$ 150	\$ 603		\$ 1,002
Acquired goodwill (1)		68	54			122
Measurement period adjustment (2)		60				60
Foreign currency translation adjustment	(2)	(3)	(6)	(23)		(34)
Balance at December 31, 2014	\$ 238	\$ 134	\$ 198	\$ 580		\$ 1,150
Acquired goodwill (3)	220				\$ 87	307
Measurement period adjustment	(7)					(7)
Foreign currency translation adjustment	(12)	(6)	(4)	(18)	(1)	(41)
Other (4)			(44)		15	(29)
Balance at December 31, 2015	\$ 439	\$ 128	\$ 150	\$ 562	\$ 101	\$ 1,380

- (1) 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 (Acquisitions) to the Consolidated Financial Statements for additional information on the acquisition of Samsung Corning Precision Materials.
- (2) 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.
- (3) The Company completed four acquisitions in the Optical Communications segment during the first quarter of 2015 and one acquisition that is being reported in All Other in the fourth quarter of 2015. Refer to Note 8 (Acquisitions) to the Consolidated Financial Statements for additional information on these acquisitions.
- (4) In the fourth quarter of 2015, Corning made a change to the internal reporting structure related to a small acquisition in 2014 originally recorded in the Specialty Materials segment, which is now being reported in All Other. Additionally, a charge of \$29 million for the impairment of goodwill related to this acquisition was recorded in the fourth quarter.

Corning's gross goodwill balance for the fiscal years ended December 31, 2015 and 2014 were \$7.9 billion and \$7.6 billion, respectively. Accumulated impairment losses were \$6.5 billion for the fiscal years ended December 31, 2015 and 2014, respectively, and were generated primarily through goodwill impairments related to the Optical Communications segment.

## Other Intangible Assets

Other intangible assets follow (in millions):

	December 31,					
	Gross	2015 Accumulated amortization	Net	Gross	2014 Accumulated amortization	Net
Amortized intangible assets:						
Patents, trademarks & trade names	\$ 350	\$ 162	\$ 188	\$ 302	\$ 149	\$ 153
Customer list and other	621	103	518	411	67	344
Total	\$ 971	\$ 265	\$ 706	\$ 713	\$ 216	\$ 497

Amortized intangible assets are primarily related to the Optical Communications and Life Sciences segments. The net carrying amount of intangible assets increased by \$209 million during the year ended December 31, 2015, primarily due to acquisitions of \$288 million offset by amortization of \$54 million and foreign currency translation adjustments of \$25 million.

Amortization expense related to these intangible assets is estimated to be \$61 million annually for 2016 through 2018, \$60 million for 2019 and \$55 million for 2020.

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## 11. Other Assets and Other Liabilities

Other assets follow (in millions):

	December 31,	
	2015	2014
Current assets:		
Derivative instruments	\$ 522	\$ 687
Other current assets	390	412
Other current assets	\$ 912	\$ 1,099
Non-current assets:		
Derivative instruments	\$ 473	\$ 847
Contingent consideration asset	246	445
Other non-current assets	794	430
Other assets	\$ 1,513	\$ 1,722

Other liabilities follow (in millions):

	December 31,	
	2015	2014
Current liabilities:		
Wages and employee benefits	\$ 491	\$ 562
Income taxes	53	106
Asbestos litigation	238	
Other current liabilities	526	623
Other accrued liabilities	\$ 1,308	\$ 1,291
Non-current liabilities:		
Asbestos litigation	\$ 440	\$ 681
Other non-current liabilities	1,802	1,365
Other liabilities	\$ 2,242	\$ 2,046

## 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 \$678 million at December 31, 2015, compared with an estimate of liability of \$681 million at December 31, 2014. At December 31, 2015, \$440 million of the obligation, consisting of \$290 million for the fixed series of payments and \$150 million for the non-PCC asbestos claims, 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. The amount of the obligation related to the fair value of PCE, \$238 million, was reclassified to a current liability in the fourth quarter of 2015, as the contribution of the assets is expected to be made within the next twelve months. Refer to Note 7 (Investments) to the Consolidated Financial Statements for additional information on the asbestos litigation.

## Customer Deposits

In December 2015, Corning announced that with the support of the Hefei government it will locate a Gen 10.5 glass manufacturing facility in the Hefei XinZhan General Pilot Zone in Anhui Province, China. Glass substrate production from the new facility is expected to support mass production of LCD panels for large-size televisions by the third quarter of 2018.

As part of this investment, Corning and a Chinese customer have entered into a long-term supply agreement that commits the customer to the purchase of Gen 10.5 glass substrates from the Corning manufacturing facility in Hefei. This agreement stipulates that the customer will provide a non-refundable cash deposit in the amount of approximately \$400 million to Corning to secure rights to an amount of glass that is produced by Corning over the next 10 years. Corning received \$197 million of this deposit in 2015 and will receive the additional \$197 million in 2016. As glass is shipped to the customer, Corning will recognize revenue and issue credit memoranda to reduce the amount of the customer deposit liability, which are applied against customer receivables resulting from the sale of glass. In 2015, there were no credit memoranda issued.

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12.	Debt	
(In millions)		
	December 31,	
	2015	2014
Current portion of long-term debt and short-term borrowings		
Current portion of long-term debt	\$ 91	\$ 36
Commercial paper	481	
Total current portion of long-term debt and short-term borrowings	\$ 572	\$ 36
Long-term debt		
Debentures, 8.875%, due 2016	\$ 64	\$ 66
Debentures, 1.45%, due 2017	250	250
Debentures, 1.5%, due 2018	375	
Debentures, 6.625%, due 2019	246	243
Debentures, 4.25%, due 2020	291	287
Debentures, 8.875%, due 2021	68	69
Debentures, 2.9%, due 2022	374	
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	169	170
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 5.02%, due through 2042	375	389
Total long-term debt	4,001	3,263
Less current portion of long-term debt	91	36
Long-term debt	\$ 3,910	\$ 3,227

At December 31, 2015 and 2014, the weighted-average interest rate on current portion of long-term debt was 7.0% and 2.5%, respectively. At December 31, 2015, the weighted-average interest rate on commercial paper was 0.6%.

Based on borrowing rates currently available to us for loans with similar terms and maturities, the fair value of long-term debt was \$4.1 billion at December 31, 2015 and \$3.6 billion at December 31, 2014. The Company measures the fair value of its long-term debt using Level 2 inputs based primarily on current market yields for its existing debt traded in the secondary market.

The following table shows debt maturities by year at December 31, 2015 (in millions)\*:

2016	2017	2018	2019	2020	Thereafter
\$572	\$257	\$378	\$253	\$304	\$2,713

\* Excludes interest rate swap gains and bond discounts.

## Debt Issuances and Retirements

2015

- In the second quarter of 2015, we issued \$375 million of 1.50% senior unsecured notes that mature on May 8, 2018 and \$375 million of 2.90% senior unsecured notes that mature on May 15, 2022. The net proceeds of \$745 million will be used for general corporate purposes. We can redeem these notes at any time, subject to certain customary terms and conditions.

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12. Debt (continued)

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, 2015, 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, 2015, 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.
- 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.
- 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.

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 2015, we made voluntary cash contributions of \$65 million to our domestic defined benefit pension plan and contributed \$35 million to our international pension plans. 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. Although we will not be subject to any mandatory contributions in 2016, we anticipate making voluntary cash contributions of up to \$62 million to our domestic pension plan and up to \$36 million to our international pension plans in 2016.

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 pension benefits		Domestic pension benefits		International pension benefits	
	2015	2014	2015	2014	2015	2014
Change in benefit obligation						
Benefit obligation at beginning of year	\$ 3,809	\$ 3,300	\$ 3,222	\$ 2,844	\$ 587	\$ 456
Service cost	90	82	64	55	26	27
Interest cost	144	160	126	137	18	23
Plan participants' contributions	1	1	1	1		
Acquisitions		103				103
Amendments		25		25		
Actuarial (gain) loss	(95)	394	(87)	327	(8)	67
Other	(8)	(3)			(8)	(3)
Benefits paid	(188)	(207)	(165)	(167)	(23)	(40)
Foreign currency translation	(38)	(46)			(38)	(46)
Benefit obligation at end of year	\$ 3,715	\$ 3,809	\$ 3,161	\$ 3,222	\$ 554	\$ 587
Change in plan assets						
Fair value of plan assets at beginning of year	\$ 3,263	\$ 2,896	\$ 2,814	\$ 2,596	\$ 449	\$ 300
Actual (loss) gain on plan assets	(108)	355	(111)	287	3	68
Employer contributions	116	147	77	97	39	50
Plan participants' contributions	1	1	1	1		
Acquisitions		97				97
Benefits paid	(188)	(207)	(165)	(167)	(23)	(40)
Foreign currency translation	(26)	(26)			(26)	(26)
Fair value of plan assets at end of year	\$ 3,058	\$ 3,263	\$ 2,616	\$ 2,814	\$ 442	\$ 449
Funded status at end of year						
Fair value of plan assets	\$ 3,058	\$ 3,263	\$ 2,616	\$ 2,814	\$ 442	\$ 449
Benefit obligations	(3,715)	(3,809)	(3,161)	(3,222)	(554)	(587)
Funded status of plans	\$ (657)	\$ (546)	\$ (545)	\$ (408)	\$ (112)	\$ (138)

Amounts recognized in the consolidated balance sheets consist of:

Noncurrent asset	\$ 50	\$ 47			\$ 50	\$ 47
Current liability	(35)	(41)	\$ (30)	\$ (30)	(5)	(11)
Noncurrent liability	(672)	(552)	(515)	(378)	(157)	(174)
Recognized liability	\$ (657)	\$ (546)	\$ (545)	\$ (408)	\$ (112)	\$ (138)

Amounts recognized in accumulated other comprehensive income consist of:

Net actuarial loss	\$ 332	\$ 308	\$ 305	\$ 278	\$ 27	\$ 30
Prior service cost (credit)	35	41	37	44	(2)	(3)
Amount recognized at end of year	\$ 367	\$ 349	\$ 342	\$ 322	\$ 25	\$ 27

The accumulated benefit obligation for defined benefit pension plans was \$3.5 billion and \$3.6 billion at December 31, 2015 and 2014, respectively.

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## 13. Employee Retirement Plans (continued)

December 31,	Postretirement benefits	
	2015	2014
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 862	\$ 815
Service cost	13	11
Interest cost	33	38
Plan participants' contributions	7	7
Amendments		(5)
Actuarial (gain) loss	(97)	49
Other	4	
Benefits paid	(61)	(56)
Medicare subsidy received	2	3
Foreign currency translation		
Benefit obligation at end of year	\$ 763	\$ 862
Funded status at end of year		
Fair value of plan assets	\$ 0	\$ 0
Benefit obligations	(763)	(862)
Funded status of plans	\$ (763)	\$ (862)
Amounts recognized in the consolidated balance sheets consist of:		
Current liability	\$ (45)	\$ (48)
Noncurrent liability	(718)	(814)
Recognized liability	\$ (763)	\$ (862)
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss	\$ 33	\$ 132
Prior service credit	(19)	(27)
Amount recognized at end of year	\$ 14	\$ 105

The following information is presented for pension plans where the projected benefit obligation as of December 31, 2015 and 2014 exceeded the fair value of plan assets (in millions):

	December 31,	
	2015	2014
Projected benefit obligation	\$ 3,341	\$ 3,425
Fair value of plan assets	\$ 2,635	\$ 2,831

In 2015, the fair value of plan assets exceeded the projected benefit obligation for the United Kingdom, one of 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, 2015 and 2014 exceeded the fair value of plan assets (in millions):

	December 31,	
	2015	2014

Accumulated benefit obligation	\$ 3,159	\$ 479
Fair value of plan assets	\$ 2,634	\$ 17

In 2015, the fair value of plan assets exceeded the accumulated benefit obligation for 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		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Service cost	\$ 90	\$ 82	\$ 70	\$ 64	\$ 55	\$ 60	\$26	\$ 27	\$10
Interest cost	144	160	131	126	137	115	18	23	16
Expected return on plan assets	(178)	(174)	(169)	(166)	(159)	(158)	(12)	(15)	(11)
Amortization of prior service cost (credit)	6	6	5	7	7	6	(1)	(1)	(1)
Recognition of actuarial loss (gain)	165	29	(30)	162	4	(41)	3	25	11
Total net periodic benefit expense	\$227	\$103	\$ 7	\$193	\$ 44	\$ (18)	\$34	\$ 59	\$25
Other changes in plan assets and benefit obligations recognized in other comprehensive income:									
Curtailment effects		\$ (3)						\$ (3)	
Settlements	\$ (1)	(2)					\$(1)	(2)	
Current year actuarial loss (gain)	191	212	\$(264)	\$189	\$198	\$(274)	2	14	\$10
Recognition of actuarial (loss) gain	(165)	(29)	30	(162)	(4)	41	(3)	(25)	(11)
Current year prior service cost		25			25				
Amortization of prior service (cost) credit	(6)	(6)	(5)	(7)	(7)	(6)	1	1	1
Total recognized in other comprehensive (income) loss	\$ 19	\$197	\$(239)	\$ 20	\$212	\$(239)	\$(1)	\$(15)	\$ 0

Total  
recognized in  
net periodic  
benefit cost and  
other

comprehensive (income) loss	\$246	\$300	\$(232)	\$213	\$256	\$(257)	\$33	\$ 44	\$25
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		Postretirement benefits		
	2015	2014	2013	
Service cost	\$ 13	\$ 11	\$ 13	
Interest cost	33	38	39	
Amortization of net loss	3		15	
Amortization of prior service credit	(7)	(6)	(6)	
Total net periodic benefit expense	\$ 42	\$ 43	\$ 61	
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Current year actuarial (gain) loss	\$ (96)	\$ 49	\$ (178)	
Amortization of actuarial loss	(3)		(15)	
Current year prior service credit		(5)	(5)	
Amortization of prior service credit	7	6	6	
Total recognized in other comprehensive (income) loss	\$ (92)	\$ 50	\$ (192)	
Total recognized in net periodic benefit cost and other comprehensive (income) loss	\$ (50)	\$ 93	\$ (131)	

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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 2016 for its defined benefit pension plans. The Company expects to recognize \$1 million of net actuarial gain and \$4 million of net prior service credit as components of net periodic postretirement benefit cost in 2016.

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 seven years prior to the year ended December 31, 2014, Corning 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. Therefore, 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.

Prior to the December 31, 2015 valuation of its defined benefit pension and OPEB plans, Corning used the traditional, single weighted-average discount rate approach to develop the obligation, interest cost and service cost components of net periodic benefit cost for its defined benefit pension and OPEB plans. The individual spot rates from the yield curve are used in measuring the pension plan projected benefit obligation (PBO) or OPEB plan accumulated postretirement benefit obligation (APBO) at the measurement date. The benefit obligation is effectively calculated as the aggregate present value at the measurement date of each future benefit payment related to past service, with each payment discounted using a spot rate from a high-quality corporate bond yield curve that matches the duration of the benefit payment. Under Corning's traditional, single weighted-average discount rate approach, a single weighted-average rate is developed from the approach described above and rounded to the nearest 25 basis points. Traditionally, the weighted-average discount rate is determined at the plan measurement date, based on the same projected future benefit payments used in developing the benefit obligation. The traditional single weighted-average discount rate represents the constant annual rate that would be required to discount all future benefit payments related to past service from the date of expected future payment to the measurement date such that the aggregate present value equals the benefit obligation.

Beginning with the December 31, 2015 valuation of its defined benefit pension and OPEB plans, Corning is changing its methodology of determining the service and interest cost components of net periodic pension and other postretirement benefit costs to a more granular approach. Under the new approach the cash flows from each applicable pension and OPEB plan will be used to directly calculate the benefit obligation, service cost and interest cost using the spot rates from the applicable yield curve.



Moving to a more granular approach has a limited impact on the determination of the respective benefit obligations. The only impacts will be as a result of the elimination of the rounding of the discount rate that occurred in the traditional approach and the use of specific cash flows for Corning's non-qualified pension plans, while separately applying the yield curve to each separate OPEB plan instead of aggregating the OPEB plan cash flows. This change will result in a decrease in the interest cost and service cost components of net periodic pension and OPEB costs. For Corning's pension plans, this change will increase the immediate recognition of actuarial losses (or decrease the immediate recognition of actuarial gains), due to Corning's previous election to immediately recognize actuarial gains and losses outside of the corridor. For Corning's OPEB plans, this change will increase the accumulated other comprehensive income (AOCI) account balance due to the accumulation of lower actuarial gains or higher actuarial losses. Over time, the amortization of the actuarial losses from AOCI will begin to reduce the savings from the lower interest cost and service cost.

This change is a change in accounting estimate and therefore applied prospectively (beginning with the next measurement date of December 31, 2015). No restatement of prior periods is required.

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## 13. Employee Retirement Plans (continued)

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		
	2015	Domestic 2014	2013	2015	International 2014	2013	2015	2014	2013
Discount rate	4.24%	4.00%	4.75%	3.23%	3.21%	4.08%	4.31%	4.00%	4.75%
Rate of compensation increase	3.50%	3.50%	4.00%	3.92%	3.88%	3.85%			

The weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 follow:

	Pension benefits						Postretirement benefits		
	2015	Domestic 2014	2013	2015	International 2014	2013	2015	2014	2013
Discount rate	4.00%	4.75%	3.75%	3.21%	4.08%	4.48%	4.00%	4.75%	4.00%
Expected return on plan assets	6.00%	6.25%	6.00%	2.97%	4.12%	3.73%			
Rate of compensation increase	3.50%	4.00%	4.00%	3.88%	3.85%	3.45%			

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.

	2015	2014
Assumed health care trend rates at December 31		
Health care cost trend rate assumed for next year	7%	6.67%
Rate that the cost trend rate gradually declines to	5%	5%
Year that the rate reaches the ultimate trend rate	2024	2020

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 increase	One-percentage-point decrease
Effect on annual total of service and interest cost	\$ 4	\$ (3)
Effect on postretirement benefit obligation	\$52	\$(43)

## 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.

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## 13. Employee Retirement Plans (continued)

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, 2015	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equity securities:				
U.S. companies	\$ 336	\$ 51	\$ 285	
International companies	322	79	243	
Fixed income:				
U.S. corporate bonds	1,566	158	1,408	
Private equity (1)	163			\$ 163
Real estate (2)	61			61
Cash equivalents	71	71		
Commodities (3)	97		97	
Total	\$ 2,616	\$ 359	\$ 2,033	\$ 224

- (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.

(in millions)	December 31, 2014	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equity securities:				
U.S. companies	\$ 310	\$ 49	\$ 261	
International companies	327	78	249	
Fixed income:				
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	
Total	\$ 2,814	\$ 373	\$ 2,165	\$ 276

- (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)

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, 2015	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equity securities:				
U.S. companies	\$ 7		\$ 7	
International companies	23		23	
Fixed income:				
International fixed income	347	\$ 286	61	
Insurance contracts	3			\$ 3
Mortgages	2			2
Cash equivalents	60	60		
Total	\$ 442	\$ 346	\$ 91	\$ 5

(in millions)	December 31, 2014	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Equity securities:				
U.S. companies	\$ 6		\$ 6	
International companies	22		22	
Fixed income:				
International fixed income	361	\$ 293	68	
Insurance contracts	5			\$ 5
Mortgages	7			7
Cash equivalents	48	48		
Total	\$ 449	\$ 341	\$ 96	\$ 12

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, 2015 and 2014:

(in millions)	Level 3 assets – Domestic Year ended December 2015		Level 3 assets – International Year ended December 2015	
	Private equity	Real estate	Mortgages	Insurance contracts
Beginning balance at December 31, 2014	\$ 192	\$ 84	\$ 7	\$ 5

Actual return on plan assets relating to assets  
still held at the reporting date

Transfers in and/or out of level 3	(45)	(35)	(5)	(2)
Ending balance at December 31, 2015	\$ 163	\$ 61	\$ 2	\$ 3

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## 13. Employee Retirement Plans (continued)

(in millions)	Level 3 assets – Domestic Year ended December 2014		Level 3 assets – International Year ended December 2014	
	Private equity	Real estate	Mortgages	Insurance contracts
Beginning balance at December 31, 2013	\$ 207	\$ 93	\$ 0	\$ 6
Actual return on plan assets relating to assets 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

**Credit Risk**

60% 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.

**Liquidity Risk**

9% 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, 2015 and 2014, the amount of Corning common stock included in equity securities was not significant.

**Cash Flow Data**

In 2016, we anticipate making voluntary cash contributions of approximately \$62 million to our domestic defined benefit plan and approximately \$36 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 postretirement benefits
	Domestic pension benefits	International pension benefits	Postretirement benefits	
2016	\$ 192	\$ 18	\$ 45	\$ 2
2017	\$ 178	\$ 22	\$ 44	\$ 3
2018	\$ 186	\$ 24	\$ 44	\$ 3
2019	\$ 192	\$ 25	\$ 44	\$ 3
2020	\$ 198	\$ 29	\$ 46	\$ 3



2021-2025	\$1,100	\$168	\$230	\$16
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#### Other Benefit Plans

We offer defined contribution plans covering employees meeting certain eligibility requirements. Total consolidated defined contribution plan expense was \$53 million, \$62 million and \$63 million for the years ended December 31, 2015, 2014 and 2013, 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 1 year	1 to 3 years	3 to 5 years	5 years and thereafter
Performance bonds and guarantees	\$ 92	\$ 25	\$ 6	\$ 1	\$ 60
Stand-by letters of credit (1)	47	44			3
Credit facility to equity company	31	27			4
Loan guarantees	14				14
Subtotal of commitment expirations per period	\$ 184	\$ 96	\$ 6	\$ 1	\$ 81
Purchase obligations (6)	\$ 220	\$ 106	\$ 77	\$ 33	\$ 4
Capital expenditure obligations (2)	298	298			
Total debt (3)	4,122	565	625	550	2,382
Interest on long-term debt (4)	2,385	165	316	280	1,624
Capital leases and financing obligations (3)	355	7	10	7	331
Imputed interest on capital leases and financing obligations	240	19	37	36	148
Minimum rental commitments	573	49	110	77	337
Uncertain tax positions (5)	58				
Subtotal of contractual obligation payments due by period (5)	\$ 8,251	\$ 1,209	\$ 1,175	\$ 983	\$ 4,826
Total commitments and contingencies (5)	\$ 8,435	\$ 1,305	\$ 1,181	\$ 984	\$ 4,907

(1) At December 31, 2015, \$38 million of the \$47 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/losses 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, 2015, \$58 million was included on our balance sheet related to uncertain tax positions. Of this amount, we are unable to estimate when any 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, 2015 follow (in millions):

2016	2017	2018	2019	2020	2021 and thereafter
\$49	\$58	\$52	\$41	\$36	\$337

Total rental expense was \$94 million for 2015, \$92 million for 2014 and \$85 million for 2013.

Product warranty liability accruals at December 31, 2015 and December 31, 2014 are insignificant.

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14. Commitments, Contingencies and Guarantees (continued)

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 17 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, 2015 and December 31, 2014, Corning had accrued approximately \$37 million (undiscounted) and \$43 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, 2015, 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. 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. The Company qualified for and elected the end-user exception to the

mandatory swap clearing requirement of the Dodd-Frank Act.

#### 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.

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## 15. Hedging Activities (continued)

Corning uses a regression analysis to monitor the effectiveness of its cash flow hedges both prospectively and retrospectively. Through December 31, 2015, 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, 2015, the amount expected to be reclassified into earnings within the next 12 months is a pre-tax net loss of \$4.8 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 (expense) income, net component, relative to ineffectiveness, is nominal for the year ended December 31, 2015.

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 Income.

**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, South Korean won and euro. When these revenues are translated back to U.S. dollars, the Company is exposed to foreign exchange rate movements in the Japanese yen, South Korean won and euro. To protect translated earnings against movements in these currencies, the Company has entered into a series of zero-cost 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 zero-cost collar structure, the Company writes a local currency call option and purchases a local currency put option or vice versa. The zero-cost collars offset the impact of translated earnings above the put price and below the call strike price and that offset is reported in foreign currency hedge gain, net. The Company entered into a series of zero-cost collars, settling quarterly, to hedge the effect of translation impact for each respective quarter, and span up to the fourth quarter of 2017. 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, 2015, the U.S. dollar net notional value of the zero-cost collar is \$2.9 billion. The Company entered into a series of average rate forwards with no associated premium, which will partially hedge the impact of Japanese yen and euro translation on the Company's projected 2015 through 2017 net income. These forwards have a notional value of \$6.4 billion and will settle net without obligation to deliver Japanese yen and euro. In January 2016, Corning took advantage of the stronger yen to extend its foreign exchange hedging program to hedge a significant portion of its projected yen exposure for the period 2018 through 2022.

The Company benefits from the increase in the U.S. dollar equivalent value of its foreign currency earnings in translation. The zero-cost collar 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 foreign currency hedge gain, net line of the Consolidated Statement of Income.

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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, 2015 and December 31, 2014 (in millions):

	In thousands on a gross basis, December 31, 2015 and December 31, 2014 (in millions):							
	Notional amount		Asset derivatives			Liability derivatives		
			Balance sheet location	Fair value		Balance sheet location	Fair value	
2015	2014	2015		2014	2015		2014	
Derivatives designated as hedging instruments								
Foreign exchange contracts	\$ 782	\$ 487	Other current assets	\$ 5	\$ 22	Other accrued liabilities	\$ (10)	\$ (6)
			Other assets	1		Other liabilities	(23)	
Interest rate contracts	550	1,300	Other assets		1	Other liabilities	(4)	(15)
Derivatives not designated as hedging instruments								
Foreign exchange contracts, other	1,095	1,285	Other current assets	6	17	Other accrued liabilities	(12)	(5)
Foreign currency hedges related to translated earnings	11,972	12,126	Other current assets	511	649	Other accrued liabilities	(33)	(33)
			Other assets	472	846	Other liabilities	(61)	
Total derivatives	\$ 14,399	\$ 15,198		\$ 995	\$ 1,535		\$ (143)	\$ (59)

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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	(Loss)/gain 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)		
	2015	2014	2013		2015	2014	2013
Cash flow hedges							
-				Net sales	\$ 20	\$ 3	
Interest rate hedge	\$ (7)	\$ (3)	\$ 33	Cost of sales	6	7	\$ 38
Foreign exchange contracts	(17)	20	56	Other (expense) income, net			91
Total cash flow hedges	\$ (24)	\$ 17	\$ 89		\$ 26	\$ 10	\$ 129
				Gain (loss) recognized in income			
Undesignated derivatives	Location of gain/(loss) recognized in income			2015	2014	2013	
Foreign exchange contracts – balance sheet	Foreign currency hedge gain (loss), net			\$ 8	\$ 29	\$ 100	
Foreign exchange contracts – loans	Foreign currency hedge (loss) gain, net			(3)	13	87	
Foreign currency hedges related to translated earnings	Foreign currency hedge gain (loss), net			80	1,369	435	
Total undesignated				\$ 85	\$ 1,411	\$ 622	

(1) There were no material amounts of ineffectiveness for 2015 and 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.

## 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, 2015	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Current assets:				
Short-term investments	\$100	\$100		
Other current assets (1)	\$522		\$522	
Non-current assets:				
Other assets (1)(2)	\$752		\$506	\$246
Current liabilities:				
Other accrued liabilities (1)	\$ 55		\$ 55	
Non-current liabilities:				
Other liabilities (1)(2)	\$ 98		\$ 88	\$ 10

(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 contingent consideration assets or liabilities which are measured by applying an option pricing model using projected future revenues.

(in millions)	December 31, 2014	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Current assets:				
Short-term investments	\$ 759	\$759		
Other current assets (1)	\$ 687		\$687	
Non-current assets:				
Other assets (1)(2)	\$1,330		\$885	\$445
Current liabilities:				
Other accrued liabilities (1)	\$ 44		\$ 44	
Non-current liabilities:				
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)	Level 3 Roll-Forward – Other Assets	
	2015	2014
Beginning balance	\$445	\$196
Unrealized gains (loss)	13	249
Transfer in (out) of level 3	(212)	
Ending balance	\$246	\$445

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## 16. Fair Value Measurements (continued)

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.

On December 29, 2015, Corning and Samsung Display entered into an agreement pursuant to which Corning exchanged the amount of contingent consideration in excess of \$300 million (net present fair value: \$246 million), as consideration for the incremental fair value associated with a number of commercial agreements, including the amendment of its long-term supply agreement with Samsung Display. As of December 29, 2015, the net present fair value of the contingent consideration receivable was \$458 million. The net present fair value of the commercial benefit associated with the amended long-term supply agreement exceeds the value exchanged by Corning pursuant to this agreement (net present fair value: \$212 million). Consequently, Corning reclassified this amount to the other asset line of the Consolidated Balance Sheet and will amortize the amount over the remaining term of the long-term supply agreement as a reduction in revenue.

Additionally, as a result of the acquisitions of iBwave Solutions Inc. and the fiber-optics business of Samsung Electronics Co., Ltd. in the first quarter of 2015, the Company has contingent consideration that was measured using unobservable (Level 3) inputs. As of December 31, 2015, the fair value of the contingent consideration payable is \$10 million.

There were no significant financial assets and liabilities measured on a nonrecurring basis during the years ended December 31, 2015 and 2014.

## 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, 2015, 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 of Samsung Corning Precision Materials, 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.

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17. Shareholders' Equity (continued)

Share Repurchases

2013 Repurchase Program

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 (the "2013 ASR agreement") with JP Morgan Chase Bank, National Association, London Branch ("JPMC"). Under the 2013 ASR agreement, 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 2013 ASR agreement was completed. Corning received an additional 10.5 million shares on January 31, 2014 to settle the 2013 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 2013 ASR agreement, less a discount.

In addition to the shares repurchased through the 2013 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.

March 2014 Repurchase Program

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 "March 2014 Repurchase Program"), Corning entered into an ASR agreement (the "2014 ASR agreement") with Citibank N.A. ("Citi"). Under the 2014 ASR agreement, 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. The 2014 ASR agreement was completed on May 28, 2014, and Corning received an additional 8.7 million shares to settle the 2014 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 2014 ASR agreement, less a discount.

In addition to the shares repurchased through the 2014 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 March 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.

December 2014 Repurchase Program

On December 3, 2014, Corning's Board of Directors authorized the repurchase of up to \$1.5 billion shares of common stock (the "December 2014 Repurchase Program") between the date of announcement and December 31, 2016. In the year ended December 31, 2015, we repurchased 70.4 million shares of common stock for approximately \$1.5 billion as part of the December 2014 Repurchase Program, which was completed in the third quarter of 2015.

2015 Repurchase Programs

On July 15, 2015, Corning's Board of Directors approved a \$2 billion share repurchase program (the "July 2015 Repurchase Program") and on October 26, 2015 the Board of Directors authorized an additional \$4 billion share repurchase program (together with the July 2015 Repurchase Program, the "2015 Repurchase Programs"). The 2015

Repurchase Programs permit Corning to effect repurchases from time to time through a combination of open market repurchases, privately negotiated transactions, advance repurchase agreements and/or other arrangements.

On October 28, 2015, Corning entered into an ASR with Morgan Stanley & Co. LLC (“Morgan Stanley”) to repurchase \$1.25 billion of Corning’s common stock (the “2015 ASR agreement”). The 2015 ASR was executed under the July 2015 Repurchase Program. Under the 2015 ASR agreement, Corning made a \$1.25 billion payment to Morgan Stanley on October 29, 2015 and received an initial delivery of approximately 53.1 million shares of Corning common stock from Morgan Stanley on the same day. The payment to Morgan Stanley was recorded as a reduction to shareholders’ equity, consisting of \$1 billion increase in treasury stock, which reflects the value of the initial 53.1 million shares received upon execution, and a \$250 million decrease in other-paid-in capital, which reflects the value of the stock held back by Morgan Stanley pending final settlement. On January 19, 2016, the 2015 ASR agreement was completed. Corning received an additional 15.9 million shares on January 22, 2016 to settle the 2015 ASR agreement. In total, Corning purchased 69 million shares based on the average daily volume weighted-average price of Corning’s common stock during the term of the 2015 ASR agreement, less a discount.

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## 17. Shareholders' Equity (continued)

In addition to the shares repurchased through the 2015 ASR agreement, we repurchased 98 million shares of common stock on the open market for approximately \$2 billion, as part of the December 2014 Repurchase Program and the July 2015 Repurchase Program, resulting in a total of 151 million shares repurchased during 2015.

The following table presents changes in capital stock for the period from January 1, 2013 to December 31, 2015 (in millions):

	Common stock		Treasury stock	
	Shares	Par value	Shares	Cost
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)
Shares issued to benefit plans and for option exercises	9	4		(1)
Shares purchased for treasury			(151)	(2,978)
Other, net			(2)	(19)
Balance at December 31, 2015	1,681	\$ 840	(551)	\$ (9,725)

(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 since 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 currency translation adjustments and other	Unamortized actuarial gains (losses) and prior service (costs) credits	Net unrealized gains (losses) on investments	Net unrealized gains (losses) on designated hedges	Accumulated other comprehensive income (loss)
Balance at December 31, 2012	\$ 1,174	\$ (820)	\$ (16)	\$ 18	\$ 356
Other comprehensive income before reclassifications (4)	\$ (756)	\$ 283	\$ 1	\$ 56	\$ (416)
Amounts reclassified from accumulated other comprehensive income (2)		(10)	(1)	(81)	(92)
Equity method affiliates (3)	74	119	2	1	196
Net current-period other comprehensive (loss) income	(682)	392	2	(24)	(312)
Balance at December 31, 2013	\$ 492	\$ (428)	\$ (14)	\$ (6)	\$ 44
Other comprehensive income before reclassifications (5)	\$ (821)	\$ (172)	\$ 4	\$ 10	\$ (979)
Amounts reclassified from accumulated other comprehensive income (2)	(136)	18	1	(6)	(123)
Equity method affiliates (3)	(116)	(127)	(6)		(249)
Net current-period other comprehensive (loss) income	(1,073)	(281)	(1)	4	(1,351)
Balance at December 31, 2014	\$ (581)	\$ (709)	\$ (15)	\$ (2)	\$ (1,307)
Other comprehensive income before reclassifications (6)	\$ (487)	\$ (59)		\$ (18)	\$ (564)
Amounts reclassified from accumulated other comprehensive income (2)		105	\$ 1	(20)	86
Equity method affiliates (3)	(103)	75		2	(26)
Net current-period other comprehensive (loss) income	(590)	121	1	(36)	(504)
Balance at December 31, 2015	\$ (1,171)	\$ (588)	\$ (14)	\$ (38)	\$ (1,811)

(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 expense of \$(197) million, including \$(33) million related to the hedges component and \$(164) million related to the retirement plans component.
- (5) 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.
- (6) Amounts are net of total tax benefit of \$41 million, including \$35 million related to the retirement plans component and \$6 million related to the hedges component.

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## 17. Shareholders' Equity (continued)

(In millions)

Reclassifications Out of Accumulated Other Comprehensive Income (AOCI) by Component (1)				
Details about AOCI Components	Amount reclassified from AOCI			Affected line item in the consolidated statements of income
	Years ended December 31,			
	2015	2014	2013	
Foreign currency translation adjustment		\$ 136		Transaction-related gain, net
		136		Net of tax
Amortization of net actuarial (loss) gain	\$ (168)	\$ (29)	\$ 15	(2)
Amortization of prior service credit	1		1	(2)
	(167)	(29)	16	Total before tax
	62	11	(6)	Tax benefit (expense)
	\$ (105)	\$ (18)	\$ 10	Net of tax
Realized (losses) gains on investments	\$ (1)	\$ (1)	\$ 1	Other (expense) income, net
	\$ (1)	\$ (1)	\$ 1	Tax expense
				Net of tax
Realized gains on designated hedges	\$ 20	\$ 3		Sales
	6	7	\$ 38	Cost of sales
				Other (expense)
			91	income, net
	26	10	129	Total before tax
	(6)	(4)	(48)	Tax expense
	\$ 20	\$ 6	\$ 81	Net of tax
Total reclassifications for the period	\$ (86)	\$ 123	\$ 92	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) to the Consolidated Financial Statements 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,		
	2015	2014	2013
Net income attributable to Corning Incorporated	\$ 1,339	\$ 2,472	\$ 1,961
Less: Series A convertible preferred stock dividend	98	94	
Net income available to common stockholders - basic	1,241	2,378	1,961
Plus: Series A convertible preferred stock dividend	98	94	
Net income available to common stockholders - diluted	\$ 1,339	\$ 2,472	\$ 1,961
Weighted-average common shares outstanding - basic	1,219	1,305	1,452
Effect of dilutive securities:			
Stock options and other dilutive securities	9	12	10
Series A convertible preferred stock	115	110	
Weighted-average common shares outstanding - diluted	1,343	1,427	1,462
Basic earnings per common share	\$ 1.02	\$ 1.82	\$ 1.35
Diluted earnings per common share	\$ 1.00	\$ 1.73	\$ 1.34
Anti-dilutive potential shares excluded from diluted earnings per common share:			
Employee stock options and awards	22	24	39
Accelerated share repurchase forward contract	15	3	3
Total	37	27	42

## 19. Share-based Compensation

## Stock Compensation Plans

Corning maintains long-term incentive plans (the Plans) for key employees 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, 2015, there were approximately 72 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 \$46 million, \$58 million and \$54 million was disclosed in operating activities on the Company's Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013,

respectively.

#### Stock Options

Corning's stock option plans provide non-qualified and incentive stock options to purchase authorized but unissued shares, 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 stock options outstanding including the related transactions under the stock option plans for the year ended December 31, 2015:

	Number of shares (in thousands)	Weighted- average exercise price	Weighted- average remaining contractual term in years	Aggregate intrinsic value (in thousands)
Options outstanding as of December 31, 2014	48,724	\$18.94		
Granted	1,578	21.48		
Exercised	(6,340)	16.13		
Forfeited and expired	(1,224)	20.78		
Options outstanding as of December 31, 2015	42,738	19.40	3.93	\$83,023
Options expected to vest as of December 31, 2015	42,696	19.40	3.93	82,992
Options exercisable as of December 31, 2015	35,245	19.86	3.08	65,817

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, 2015, 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, 2015, was approximately 13 million.

The weighted-average grant-date fair value for options granted for the years ended December 31, 2015, 2014 and 2013 was \$7.99, \$8.29 and \$5.02, respectively. The total fair value of options that vested during the years ended December 31, 2015, 2014 and 2013 was approximately \$36 million, \$16 million and \$29 million, respectively. Compensation cost related to stock options for the years ended December 31, 2015, 2014 and 2013, was approximately \$14 million, \$22 million and \$25 million, respectively.

As of December 31, 2015, there was approximately \$7 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 \$102 million for the year ended December 31, 2015, 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, 2015, 2014 and 2013 was approximately \$48 million, \$69 million and \$55 million, respectively. The income tax benefit realized from share-based compensation was not significant for the years ended December 31, 2015 and 2014. There were no income tax benefits realized from share-based compensation for the year ended December 31, 2013, due to net operating loss and credit carryforwards available to the Company. Refer to Note 6 (Income Taxes).

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:

	2015			2014			2013		
Expected volatility	43.6	-	44.9%	45.4	-	46.2%	46.5	-	47.4%
Weighted-average volatility	43.6	-	44.9%	45.4	-	46.2%	46.6	-	47.3%
Expected dividends	1.92	-	2.68%	1.90	-	2.09%	2.35	-	3.02%
Risk-free rate	1.9	-	2.1%	2.0	-	2.2%	0.8	-	2.2%
Average risk-free rate	1.9	-	2.1%	2.0	-	2.2%	1.1	-	2.2%
Expected term (in years)	7.2	-	7.2	7.2	-	7.2	5.8	-	7.2
Pre-vesting departure rate	0.6	-	0.6%	0.5	-	0.5%	0.4	-	4.1%

## 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 is based on the grant date closing price of the Company's stock.

## 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, 2014, and changes which occurred during the year ended December 31, 2015:

	Shares (000's)	Weighted- average grant-date fair value
Non-vested shares and share units at December 31, 2014	5,737	\$15.43
Granted	1,815	21.49
Vested	(2,238)	14.35
Forfeited	(72)	21.11
Non-vested shares and share units at December 31, 2015	5,242	17.91

As of December 31, 2015, there was approximately \$27 million of unrecognized compensation cost related to non-vested 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 2.3 years. The total fair value of time-based restricted stock that vested during the years ended December 31, 2015, 2014 and 2013 was approximately \$32 million, \$32 million and \$29 million, respectively. Compensation cost related to time-based restricted stock and restricted stock units was approximately \$32 million, \$36 million and \$29 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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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 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’s Pharmaceutical Technologies business, which consists of a pharmaceutical glass business and a glass tubing business used in the pharmaceutical packaging industry. This segment also includes Corning Precision Materials’ non-LCD business and new product lines and development projects such as laser technologies, advanced flow reactors and adjacency businesses in pursuit of thin, strong glass, as well as certain corporate investments such as Eurokera and Keraglass equity affiliates.

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 Technologies	Optical Communications	Environmental Technologies	Specialty Materials	Life Sciences	All Other	Total
For the year ended December 31, 2015							
Net sales	\$ 3,086	\$ 2,980	\$ 1,053	\$ 1,107	\$ 821	\$ 64	\$ 9,111
Depreciation (1)	\$ 605	\$ 163	\$ 125	\$ 112	\$ 60	\$ 43	\$ 1,108
Amortization of purchased intangibles		\$ 32			\$ 20	\$ 1	\$ 53
Research, development and engineering expenses (2)	\$ 105	\$ 138	\$ 93	\$ 113	\$ 23	\$ 186	\$ 658
Restructuring, impairment and other charges		\$ (1)		\$ 16			\$ 15
Equity in earnings of affiliated companies	\$ (9)					\$ 17	\$ 8
Income tax (provision) benefit	\$ (499)	\$ (115)	\$ (78)	\$ (85)	\$ (30)	\$ 89	\$ (718)
Net income (loss) (4)	\$ 1,095	\$ 237	\$ 161	\$ 167	\$ 61	\$ (202)	\$ 1,519
Investment in affiliated companies, at equity	\$ 43	\$ 1	\$ 32			\$ 261	\$ 337
Segment assets (5)	\$ 8,344	\$ 1,783	\$ 1,288	\$ 1,407	\$ 514	\$ 738	\$14,074
Capital expenditures	\$ 594	\$ 171	\$ 117	\$ 88	\$ 32	\$ 57	\$ 1,059
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 purchased intangibles		\$ 10			\$ 22		\$ 32
Research, development and engineering expenses (2)	\$ 138	\$ 141	\$ 91	\$ 140	\$ 22	\$ 177	\$ 709
	\$ 45	\$ 17		\$ (1)	\$ 1	\$ 6	\$ 68

Restructuring, impairment and other charges							
Equity in earnings of affiliated companies	\$ (20)		\$ 2			\$ 18	
Income tax (provision) benefit	\$ (608)	\$ (111)	\$ (89)	\$ (75)	\$ (33)	\$ 83	\$ (833)
Net income (loss) (4)	\$ 1,396	\$ 194	\$ 178	\$ 138	\$ 67	\$ (198)	\$ 1,775
Investment in affiliated companies, at equity	\$ 63	\$ 2	\$ 32			\$ 214	\$ 311
Segment assets (5)	\$ 8,863	\$ 1,737	\$ 1,297	\$ 1,288	\$ 553	\$ 518	\$14,256
Capital 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 purchased intangibles		\$ 10			\$ 21		\$ 31
Research, development and engineering expenses (2)	\$ 84	\$ 140	\$ 89	\$ 144	\$ 20	\$ 116	\$ 593
Restructuring, impairment and other charges	\$ 7	\$ 12	\$ 1	\$ 19	\$ 4	\$ 8	\$ 51
Equity in earnings of affiliated companies (3)	\$ 357	\$ 2	\$ 1	\$ 4		\$ (24)	\$ 340
Income tax (provision) benefit	\$ (337)	\$ (96)	\$ (63)	\$ (88)	\$ (34)	\$ 59	\$ (559)
Net income (loss) (4)	\$ 1,293	\$ 189	\$ 127	\$ 181	\$ 68	\$ (165)	\$ 1,693
Investment in affiliated companies, at equity	\$ 3,666	\$ 3	\$ 31	\$ 10		\$ 232	\$ 3,942
Segment assets (5)	\$ 9,501	\$ 1,654	\$ 1,230	\$ 1,333	\$ 551	\$ 422	\$14,691
Capital expenditures	\$ 350	\$ 105	\$ 196	\$ 62	\$ 51	\$ 55	\$ 819

(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 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.

- (4) 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.
- (5) Segment assets include inventory, accounts receivable, property, plant and equipment, net of accumulated depreciation, and associated equity companies and cost investments.

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## 20. Reportable Segments (continued)

For the year ended December 31, 2015, 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 62% of total segment sales.
- In the Optical Communications segment, two customers accounted for 22% of total segment sales.
- In the Environmental Technologies segment, three customers accounted for 86% of total segment sales.
  - In the Specialty Materials segment, three customers accounted for 56% of total segment sales.
  - In the Life Sciences segment, two customers accounted for 46% 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 follows (in millions):

	Years ended December 31,		
	2015	2014	2013
Net income of reportable segments	\$ 1,721	\$ 1,973	\$ 1,858
Net loss of All Other	(202)	(198)	(165)
Unallocated amounts:			
Net financing costs (1)	(111)	(113)	(66)
Share-based compensation expense	(46)	(58)	(54)
Exploratory research	(109)	(102)	(112)
Corporate contributions	(52)	(43)	(42)
Equity in earnings of affiliated companies, net of impairments (2)	291	269	207
Unrealized (loss) gain on foreign currency hedges related to translated earnings	(573)	1,095	368
Income tax benefit (provision)	568	(267)	(1)
Other corporate items	(148)	(84)	(32)
Net income	\$ 1,339	\$ 2,472	\$ 1,961

(1) Net financing costs include interest income, interest expense, and interest costs and investment gains and losses associated with benefit plans.

(2) Primarily represents the equity earnings of Dow Corning.

A reconciliation of reportable segment assets to consolidated total assets follows (in millions):

	December 31,		
	2015	2014	2013
Total assets of reportable segments	\$ 13,336	\$ 13,738	\$ 14,269
Non-reportable segments	738	518	422
Unallocated amounts:			
Current assets (1)	5,488	7,402	6,349
Investments (2)	1,638	1,490	1,595
Property, plant and equipment, net (3)	1,692	1,657	1,594
Other non-current assets (4)	5,655	5,258	4,249



Total assets	\$ 28,547	\$ 30,063	\$28,478
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(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.

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## 20. Reportable Segments (continued)

Selected financial information concerning the Company's product lines and reportable segments follow (in millions):

	Years Ended December 31,		
	2015	2014	2013
Revenues from External Customers			
Display Technologies	\$ 3,086	\$ 3,851	\$ 2,545
Optical Communications			
Carrier network	2,194	2,036	1,782
Enterprise network	786	616	544
Total Optical Communications	2,980	2,652	2,326
Environmental Technologies			
Automotive and other	528	528	485
Diesel	525	564	434
Total Environmental Technologies	1,053	1,092	919
Specialty Materials			
Corning Gorilla Glass	810	846	848
Advanced optics and other specialty glass	297	359	322
Total Specialty Materials	1,107	1,205	1,170
Life Sciences			
Labware	512	536	529
Cell culture products	309	326	322
Total Life Science	821	862	851
All Other	64	53	8
	\$ 9,111	\$ 9,715	\$ 7,819

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## 20. Reportable Segments (continued)

Information concerning principal geographic areas was as follows (in millions):

	2015		2014		2013	
	Net sales (2)	Long- lived assets (1)	Net sales (2)	Long- lived assets (1)	Net sales (2)	Long- lived assets (1)
North America						
United States	\$ 2,719	\$ 8,241	\$ 2,275	\$ 7,998	\$ 2,061	\$ 7,170
Canada	244	144	311		308	
Mexico	37	135	35	50	23	36
Total North America	3,000	8,520	2,621	8,048	2,392	7,206
Asia Pacific						
Japan	440	1,160	608	1,311	621	1,548
Taiwan	841	2,301	1,092	2,005	1,376	2,277
China	1,869	1,036	1,893	1,115	1,916	1,218
Korea	1,501	3,552	1,882	3,595	96	3,234
Other	331	98	308	109	278	127
Total Asia Pacific	4,982	8,147	5,783	8,135	4,287	8,404
Europe						
Germany	326	189	397	217	337	171
France	90	263	81	277	79	287
United Kingdom	164	47	187	47	165	6
Other	311	987	369	1,109	280	1,147
Total Europe	891	1,486	1,034	1,650	861	1,611
Latin America						
Brazil	55	36	67	36	77	66
Other	34		35		37	6
Total Latin America	89	36	102	36	114	72
All Other	149		175	19	165	25
Total	\$ 9,111	\$ 18,189	\$ 9,715	\$ 17,888	\$ 7,819	\$ 17,318

(1) Long-lived assets primarily include investments, plant and equipment, goodwill and other intangible assets. In 2014 and 2015, assets in the U.S. include the investment in Dow Corning. In 2013, 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.



Corning IndexCorning Incorporated and Subsidiary Companies  
Schedule II – Valuation Accounts and Reserves  
(in millions)

	Balance at beginning of period	Additions	Net deductions and other	Balance at end of period
Year ended December 31, 2015				
Doubtful accounts and allowances	\$ 47	\$ 1		\$ 48
Deferred tax valuation allowance	\$ 298	\$ 30	\$ 90	\$ 238
Accumulated amortization of purchased intangible assets	\$ 216	\$ 49		\$ 265
Reserves for accrued costs of business restructuring	\$ 44		\$ 41	\$ 3
Year ended December 31, 2014				
Doubtful accounts and allowances	\$ 28	\$ 19		\$ 47
Deferred tax 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				
Doubtful accounts and allowances	\$ 26	\$ 2		\$ 28
Deferred tax 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

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Corning IndexQuarterly Operating Results  
(unaudited)

(In millions, except per share amounts)

	First quarter	Second quarter	Third quarter	Fourth quarter	Total year
2015					
Net sales	\$ 2,265	\$ 2,343	\$ 2,272	\$ 2,231	\$ 9,111
Gross margin	\$ 929	\$ 975	\$ 892	\$ 857	\$ 3,653
Equity in earnings of affiliated companies	\$ 94	\$ 62	\$ 39	\$ 104	\$ 299
(Provision) benefit for income taxes	\$ (86)	\$ (110)	\$ (6)	\$ 55	\$ (147)
Net income attributable to Corning Incorporated	\$ 407	\$ 496	\$ 212	\$ 224	\$ 1,339
Basic earnings per common share	\$ 0.30	\$ 0.38	\$ 0.16	\$ 0.17	\$ 1.02
Diluted earnings per common share	\$ 0.29	\$ 0.36	\$ 0.15	\$ 0.17	\$ 1.00
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 charges	\$ 17	\$ 34		\$ 20	\$ 71
Equity in earnings of affiliated companies	\$ 86	\$ 62	\$ 95	\$ 23	\$ 266
Provision for income taxes	\$ (180)	\$ (172)	\$ (395)	\$ (349)	\$ (1,096)
Net income attributable to Corning 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

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DOW CORNING CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
For the period ended December 31, 2015

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DOW CORNING CORPORATION AND SUBSIDIARIES  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Board of Directors of Dow Corning Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, equity and cash flows present fairly, in all material respects, the financial position of Dow Corning Corporation and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
Detroit, Michigan  
February 3, 2016

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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,		
	2015	2014	2013
Net Sales	\$ 5,649.3	\$ 6,221.3	\$ 5,710.5
Operating Costs and Expenses			
Cost of sales	4,177.0	4,678.1	4,430.6
Marketing and administrative expenses	663.4	663.1	699.5
Gains on long-term sales agreements	(178.8)	(39.0)	(228.5)
Asset (gains) charges and restructuring expenses, net	(9.1)	1,481.0	165.5
Total operating costs and expenses	4,652.5	6,783.2	5,067.1
Operating Income (Loss)	996.8	(561.9)	643.4
Interest income	12.1	9.3	7.9
Interest expense	(52.1)	(49.0)	(45.7)
Other nonoperating income (expense), net	(82.9)	8.4	61.9
Implant liability adjustments	65.3	1,299.8	-
Income before Income Taxes	939.2	706.6	667.5
Income tax provision	303.9	132.0	233.8
Net Income	635.3	574.6	433.7
Less: Noncontrolling interests' share in net income	72.3	61.8	57.4
Net Income Attributable to Dow Corning Corporation	\$ 563.0	\$ 512.8	\$ 376.3
Weighted-Average Common Shares Outstanding (basic and diluted)	2.5	2.5	2.5
Net Income per Share (basic and diluted)	\$ 225.20	\$ 205.12	\$ 150.52
Dividends Declared per Common Share	\$ 114.00	\$ 100.00	\$ 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,		
	2015	2014	2013
Net Income	\$ 635.3	\$ 574.6	\$ 433.7
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments	(139.9)	(170.8)	(2.7)
Unrealized net gain (loss) on securities:			
Unrealized holding gain arising during the period	3.0	8.2	4.8
Reclassification adjustment for gain included in income	-	(17.6)	-
Net gain on cash flow hedges:			
Unrealized gain arising during the period	4.1	-	0.2
Reclassification adjustment for loss included in income	-	-	5.4
Defined benefit plan adjustments:			
Gain (loss) arising during the period	160.4	(467.7)	292.7
Amortization of pension adjustments included in income	84.0	49.0	81.5
Other comprehensive income (loss), before tax	111.6	(598.9)	381.9
Income tax (expense) benefit related to items of OCI <sup>1</sup>	(82.9)	141.9	(130.1)
Other comprehensive income (loss), net of tax	28.7	(457.0)	251.8
Comprehensive Income	664.0	117.6	685.5
Less: Noncontrolling interests' share in comprehensive income	63.8	47.4	44.4
Comprehensive Income Attributable to Dow Corning Corporation	\$ 600.2	\$ 70.2	\$ 641.1

(See Notes to the Consolidated Financial Statements)

<sup>1</sup>Other 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, 2015	December 31, 2014
Current Assets		
Cash and cash equivalents	\$ 2,313.5	\$ 2,291.2
Accounts receivable (net of allowance for doubtful accounts of \$7.3 in 2015 and \$10.4 in 2014)	706.1	745.9
Notes and other receivables	213.3	246.0
Inventories	1,159.5	1,083.8
Other current assets	118.4	81.4
Total current assets	4,510.8	4,448.3
Property, Plant and Equipment	10,573.9	10,683.1
Less - Accumulated Depreciation	(5,487.6)	(5,276.3)
Net property, plant and equipment	5,086.3	5,406.8
Other Assets		
Marketable securities	90.2	86.1
Deferred income taxes	388.7	569.5
Intangible assets (net of accumulated amortization of \$61.8 in 2015 and \$58.4 in 2014)	64.0	70.9
Goodwill	55.7	61.9
Other noncurrent assets	378.6	496.4
Total other assets	977.2	1,284.8
Total Assets	\$ 10,574.3	\$ 11,139.9

(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, 2015	December 31, 2014
Current Liabilities		
Current maturities of long-term debt	\$ 6.1	\$ 7.0
Trade accounts payable	482.2	522.9
Accrued payrolls and employee benefits	167.9	207.0
Accrued taxes	145.4	99.2
Accrued interest	113.4	106.8
Current deferred revenue	254.8	319.6
Other current liabilities	150.8	184.4
Total current liabilities	1,320.6	1,446.9
Other Liabilities		
Long-term debt	784.8	945.4
Implant liability	291.4	363.6
Employee benefits	1,304.2	1,552.0
Deferred income tax liabilities	9.7	38.3
Deferred revenue	2,553.6	2,882.7
Other noncurrent liabilities	370.7	284.3
Total other liabilities	5,314.4	6,066.3
Equity		
Stockholders' equity		
Common stock (\$5.00 par value - 2,500,000 shares authorized, issued and outstanding)	12.5	12.5
Retained earnings	4,072.6	3,794.6
Accumulated other comprehensive loss	(777.2)	(814.4)
Dow Corning Corporation's stockholders' equity	3,307.9	2,992.7
Noncontrolling interest in consolidated subsidiaries	631.4	634.0
Total equity	3,939.3	3,626.7
Total Liabilities and Equity	\$ 10,574.3	\$ 11,139.9

(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,		
	2015	2014	2013
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 635.3	\$ 574.6	\$ 433.7
Depreciation and amortization	419.5	491.3	490.1
Gains on long-term sales agreements	(178.8)	(39.0)	(228.5)
Cash flows related to gains on long-term sales agreements	-	-	183.2
Asset (gains) charges and restructuring expenses, net	(9.1)	1,481.0	113.9
Changes in restructuring accrual	-	(14.3)	(53.1)
Changes in deferred revenue, net	(215.2)	(201.2)	(77.8)
Changes in deferred taxes, net	62.2	45.7	(68.7)
Tax-related bond deposits, net	-	29.2	17.9
Other, net	236.6	83.8	119.3
Changes in operating assets and liabilities			
Changes in accounts and notes receivable	63.0	(46.1)	29.9
Changes in accounts payable	(26.5)	36.7	11.5
Changes in inventory	(103.3)	(123.6)	3.1
Changes in other operating assets and liabilities	(25.2)	98.6	14.6
Cash flows related to reorganization, net	(7.8)	(0.4)	(24.4)
Implant liability adjustment	(65.3)	(1,299.8)	-
Cash provided by operating activities	785.4	1,116.5	964.7
<b>Cash Flows from Investing Activities</b>			
Capital expenditures	(287.9)	(249.8)	(363.3)
Proceeds from sales, maturities, and redemptions of securities	-	18.9	-
Proceeds from sale of property	65.3	-	-
Other, net	(3.4)	(58.5)	(29.9)
Cash used in investing activities	(226.0)	(289.4)	(393.2)
<b>Cash Flows from Financing Activities</b>			
Increase in short-term borrowings	-	-	99.0
Payments of short-term borrowings	-	(73.2)	(99.0)
Increase in long-term debt	-	16.3	166.1
Payments of long-term debt	(158.9)	(12.6)	(202.6)
Distributions to shareholders of noncontrolling interests	(66.4)	(19.5)	(14.0)
Acquisition of additional shares of noncontrolling interests	-	-	(266.0)
Dividends paid to stockholders	(285.0)	(250.0)	(200.0)



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Cash used in financing activities	(510.3)	(339.0)	(516.5)
Effect of Exchange Rate Changes on Cash	(26.8)	(23.0)	0.7
Changes in Cash and Cash Equivalents			
Net increase in cash and cash equivalents	22.3	465.1	55.7
Cash and cash equivalents at beginning of period	2,291.2	1,826.1	1,770.4
Cash and cash equivalents at end of period	\$ 2,313.5	\$ 2,291.2	\$ 1,826.1

(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 Interest	Stockholders' Equity	Retained Earnings	AOCI1	Common Stock
Balance as of December 31, 2012	\$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 income (loss), net of tax						
Foreign currency translation adjustments	(2.7)	(14.2)	11.5		11.5	
Unrealized net gain on available for sale securities	4.8	1.1	3.7		3.7	
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)	

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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
Net Income	635.3	72.3	563.0	563.0		
Other comprehensive income (loss), net of tax						
Foreign currency translation adjustments	(139.9)	(9.0)	(130.9)		(130.9)	
Unrealized net gain on available for sale securities	3.0	0.2	2.8		2.8	
Net gain on cash flow hedges	2.6	-	2.6		2.6	
Pension and other postretirement benefit adjustments	163.0	0.3	162.7		162.7	
Total comprehensive income	664.0	63.8	600.2			
Dividends declared on common stock, distributions to shareholders of noncontrolling interests and other	(351.4)	(66.4)	(285.0)	(285.0)		
Balance as of December 31, 2015	\$3,939.3	\$ 631.4	\$3,307.9	\$4,072.6	\$(777.2)	\$ 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 3, 2016, the date the financial statements were available to be issued. Certain prior period items have been reclassified to conform to the current presentation. See Note 9 for further discussion of deferred taxes reclassification to noncurrent.

NOTE 2 – ANNOUNCEMENT TO RESTRUCTURE OWNERSHIP OF DOW CORNING

On December 11, 2015, Dow Chemical and Corning announced that they had entered into a definitive agreement under which Corning will exchange its 50% stock interest in Dow Corning for 100% of the stock of a newly formed entity, which will hold approximately 40% ownership interest in Hemlock Semiconductor and approximately \$4.8 billion in cash (the “Transaction”). It is anticipated that Dow Corning will incur approximately \$4.5 billion of indebtedness in order to fund the contribution of cash to the newly formed entity. Following the consummation of the

Transaction, Dow Corning will become a wholly-owned subsidiary of Dow Chemical. The transaction is expected to close in the first half of 2016 and did not materially impact Dow Corning's 2015 results. Consummation of the Transaction is subject to customary closing conditions.

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NOTE 3 – 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.

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.

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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 18 for additional details on interest payable to the Company's commercial creditors.

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.

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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, 2015 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.

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 \$232.7, \$273.3, and \$247.6 for the years ended December 31, 2015, 2014, and 2013, 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 (expense), 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.

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### 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.

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 (expense), 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 (expense), 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.

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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 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. The guidance was effective for interim and annual periods beginning after December 15, 2014, with early adoption permitted. The adoption did not impact the Company's financial position or 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. The guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted only as of interim and annual reporting periods beginning after December 15, 2016. The guidance 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.

In January 2015, the FASB issued guidance that eliminates from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption is not expected to impact the Company's results of operations or financial statement disclosures.

In February 2015, the FASB issued guidance that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption is not expected to impact the Company's financial position, results of operations, or financial statement disclosures.

In April 2015, and as clarified in August 2015, the FASB issued guidance that changes the presentation of debt issuance costs in financial statements. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The adoption is not expected to materially impact the Company's financial position or financial statement disclosures.



In May 2015, the FASB issued guidance that eliminates the requirement to categorize within the fair value hierarchy investments whose fair values are measured at net asset value. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption is not expected to materially impact the Company's financial statement disclosures.

In July 2015, the FASB issued guidance that requires entities to measure inventory at the lower of cost and net realizable value. The guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The adoption is not expected to materially impact the Company's financial position, results of operations or financial statement disclosures.

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In November 2015, the FASB issued guidance that requires deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The guidance is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2016, with early adoption permitted. The Company elected to early adopt the guidance and apply it retrospectively to all periods presented in the Company's financial position. See Note 9 for further discussion.

In January 2016, the FASB issued guidance that revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The guidance also amends certain disclosure requirements associated with the fair value of financial instruments. The guidance is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2017. The adoption is not expected to materially impact the Company's financial position, results of operations, or financial statement disclosures.

## NOTE 4 – GAINS ON LONG-TERM SALES AGREEMENTS

In 2015, 2014, and 2013, the Company recognized gains associated with the termination of multiple long-term sales agreements with certain customers. The long-term sales agreements required the customers to make initial non-refundable advanced cash payments, which were recorded as deferred revenue. During the term of the contracts, the customers ceased taking their 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 customers' failure to perform. The terminations and related actions resulted in recognition of \$178.8, \$32.7 and \$52.0 of previously recorded deferred revenue in 2015, 2014, and 2013, respectively. The Company has no remaining obligations 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 years ended December 31, 2015, 2014, and 2013 increased by \$97.9, \$17.2, and \$23.1, respectively.

Also 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 (gains) charges and restructuring expenses, net" 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.

## NOTE 5 – 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.

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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.

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 (gains) charges and restructuring expenses, net" in the consolidated statements of income. The charge consisted of \$1,434.6 related 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 as of December 31, 2014.

In December 2015, the Company completed disposal activity related to the abandoned assets resulting in a gain of \$9.1 reflected in "Asset (gains) charges and restructuring expenses, net" in the consolidated statements of income. A liability of \$36.3 remained at December 31, 2015 related to contract cancellation costs.

## NOTE 6 – 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 5. 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.

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## NOTE 7 – INVESTMENTS

Investments reflected in “Marketable securities” in the consolidated balance sheets as of December 31, 2015 and 2014 were \$90.2 and \$86.1, 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:

		December 31, 2015			
	Level	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Debt Securities - Auction rate preferred securities	Level 3	\$ 76.0	\$ -	\$ (0.4)	\$ 75.6
Foreign Equity Securities	Level 1	0.5	2.2	-	2.7
Other	Level 1	11.9	-	-	11.9
Total Marketable Securities		\$ 88.4	\$ 2.2	\$ (0.4)	\$ 90.2

		December 31, 2014			
	Level	Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Debt Securities - Auction rate preferred securities	Level 3	\$ 76.0	\$ -	\$ (3.1)	\$ 72.9
Foreign Equity Securities	Level 1	0.5	2.1	-	2.6
Other	Level 1	10.6	-	-	10.6
Total Marketable Securities		\$ 87.1	\$ 2.1	\$ (3.1)	\$ 86.1

As of December 31, 2015, securities in an unrealized loss position for 12 months or more were valued at \$6.2, net of unrealized losses of \$0.4. 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, 2015 and 2014, the Company held auction rate preferred securities valued at \$75.6 and \$72.9, 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, 2015, all of the issuers of the underlying preferred equity securities have continued to remit dividends consistent with historical practices.

## Level 3 Assets

The changes in fair value of Level 3 assets were as follows:

	2015	2014
Beginning balance as of January 1	\$ 72.9	\$ 69.0
Transfers in to Level 3	-	-

Transfers out of Level 3	-	-
Change in unrealized losses in other comprehensive loss	2.7	3.9
Realized gains/(losses) included in earnings	-	-
Sales/redemptions of assets classified as Level 3	-	-
Ending balance as of December 31	\$ 75.6	\$ 72.9

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 (expense), net” in the consolidated statements of income.

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The Company held the following securities classified as Level 3 assets based upon valuation using significant unobservable inputs:

	Fair Value	Valuation Technique	December 31, 2015 Unobservable Input	Range
Auction rate preferred securities	\$75.6	Effective interest	Market required effective interest rate	4.0% - 4.8%

## NOTE 8 – INVENTORIES

The components of inventories were as follows:

	December 31, 2015	December 31, 2014
Produced goods	\$ 871.5	\$ 777.8
Purchased materials	162.6	181.5
Maintenance and supplies	125.4	124.5
Total Inventory	\$ 1,159.5	\$ 1,083.8

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.

## NOTE 9 – INCOME TAXES

The components of income before income taxes and noncontrolling interests were as follows:

	Years Ended December 31,		
	2015	2014	2013
Domestic	\$ 728.5	\$ 358.5	\$ 276.5
Foreign	210.7	348.1	391.0
Total	\$ 939.2	\$ 706.6	\$ 667.5

The components of the income tax provision were as follows:

Years Ended December 31,								
2015			2014			2013		
Current	Deferred	Total	Current	Deferred	Total	Current	Deferred	Total



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Domestic	\$121.1	\$92.4	\$213.5	\$(30.3)	\$33.0	\$ 2.7	\$213.1	\$(154.8)	\$ 58.3
Foreign	121.6	(31.2)	90.4	113.4	15.9	129.3	114.6	60.9	175.5
Total	\$242.7	\$61.2	\$303.9	\$ 83.1	\$48.9	\$132.0	\$327.7	\$ (93.9)	\$233.8

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The tax effects of the principal temporary differences giving rise to deferred tax assets and liabilities were as follows:

	December 31,	
	2015	2014
Deferred Tax Assets:		
Implant costs	\$ 105.8	\$ 132.4
Postretirement benefit obligations	460.6	513.1
Tax loss carryforwards	123.7	151.4
Tax credit carryforwards	257.4	427.5
Accruals and other	81.5	69.8
Inventories	29.5	18.9
Long-term debt	45.5	45.5
Investments in partnerships	98.8	66.0
Deferred revenue	159.7	172.6
Total deferred tax assets	\$ 1,362.5	\$ 1,597.2
Deferred tax liabilities:		
Property, plant and equipment	(860.2)	(868.1)
Net deferred tax assets prior to valuation allowance	\$ 502.3	\$ 729.1
Less: Valuation allowance	(123.2)	(197.9)
Net Deferred Tax Assets	\$ 379.1	\$ 531.2

The Company believes that it is more likely than not that the overall net deferred tax assets will be realized. However, valuation allowances of \$123.2 have been recorded as of December 31, 2015 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, \$21.4 is attributable to realized and unrealized capital losses on marketable securities; \$45.4 from a state investment tax credit; \$10.2 due to net operating losses in foreign jurisdictions; and \$32.9 from state net operating losses in the U.S.

The Company has tax credit carryforwards of \$257.4 as of December 31, 2015. Of the total tax credit carryforwards, \$206.5 is attributable to foreign tax credits in the U.S., \$3.7 of general business credits in the U.S., and \$45.4 from state investment tax credits. The foreign tax credits expire between 2022 and 2024; the general business credits expire between 2034 and 2035; and the state investment tax credit has an indefinite carryforward period. The Company was subject to a recapture of state investment credits during 2015 of \$50.5. These credits were not previously utilized and had a full valuation allowance recorded, and therefore, did not impact the consolidated financial position or results of operations.

Tax effected operating loss carryforwards as of December 31, 2015 were \$123.7. Of the tax effected operating loss carryforwards, \$76.1 are subject to an indefinite carryforward period and were generated by the Company's subsidiaries in Brazil and the United Kingdom and \$41.1 are state net operating losses which are subject to various carryforward periods.

Cash paid for income taxes, net of refunds received, was \$162.6, \$109.6, and \$155.8 for the years ended December 31, 2015, 2014, and 2013, respectively.

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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,		
	2015	2014	2013
Income Tax Provision at Statutory Rate	\$ 328.7	\$ 247.3	\$ 233.6
Increase/(Decrease) in Income Tax Provision due to:			
Foreign provisions and related items	(12.6)	(16.8)	6.7
Domestic manufacturing deduction	(13.6)	8.5	(20.7)
Valuation allowances	(4.0)	(4.3)	11.7
Change in foreign tax rates	7.9	-	13.1
Tax reserves	-	-	(8.1)
U.S. tax effect of foreign earnings and dividends	3.5	(93.6)	2.9
Other, net	(6.0)	(9.1)	(5.4)
Total Income Tax Provision at Effective Rate	303.9	132.0	233.8
Effective Rate	32.4%	18.7%	35.0%

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 did not change the Company's ability and intent to continue to permanently reinvest undistributed earnings of foreign subsidiaries.

As of December 31, 2015, income and remittance taxes have not been recorded on \$959.1 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 \$79.8 related to the outside basis difference of its foreign subsidiaries.

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	2013	Brazil	2010
Japan	2015	China	2010
Germany	2011	United States	2006

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. During 2014 and 2015, the Company received proposed adjustments from the IRS related to the Company's consolidated federal income tax returns for 2011 and 2012. The Company contested the proposed

adjustments under the belief the adjustments would not be sustained. During 2015, the Company settled all proposed adjustments discussed above, with no material impact to the consolidated financial position or results of operations.

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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,		
	2015	2014	2013
Unrecognized tax benefits as of January 1,	\$ 102.4	\$ 89.5	\$ 16.9
Additions based on tax positions related to the current year	3.4	11.2	70.6
Additions for tax positions of prior years	72.1	16.7	33.7
Reductions to tax positions related to the current year	-	-	-
Reductions for tax positions of prior years	(1.0)	(2.1)	(5.6)
Settlements	(66.7)	(12.9)	(26.1)
Balance as of December 31,	\$ 110.2	\$ 102.4	\$ 89.5

The Company had approximately \$110.2 of total gross unrecognized tax benefits as of December 31, 2015. Of this total, \$23.0 (including interest, penalties, and net of the federal benefit on state items) represents the amount of unrecognized tax benefits that, if recognized, would impact the effective income tax rate in any future period.

The Company believes that it is reasonably possible that a decrease of up to \$89.1 in unrecognized gross tax benefits related to a temporary position may be necessary within the next 12 months due to settlement with a tax jurisdiction. Due to the temporary nature of the position, the decrease will not have a material impact on the Company's effective tax rate.

The Company does not anticipate that any additional material adjustments will result from settlements, closing of tax examinations or expiration of statutes of limitations in various jurisdictions within the next 12 months.

The Company early adopted the amended accounting guidance regarding presentation of deferred tax assets and liabilities for the period ended December 31, 2015. See Note 3 for further discussion of the standard. The presentation of deferred tax assets and liabilities as noncurrent has been applied retrospectively. The impact of adopting the standard to the Company's consolidated balance sheet as of December 31, 2014 was as follows:

	Previously Reported	Adjustments	As Adopted
Consolidated Balance Sheet			
Deferred income tax assets - current	\$ 263.7	\$ (263.7)	\$ -
Deferred income taxes - noncurrent	311.0	258.5	569.5
Deferred income tax liability - current*	1.3	(1.3)	-
Deferred income tax liabilities - noncurrent	42.2	(3.9)	38.3

\*presented within Other current liabilities

## NOTE 10 – DERIVATIVES

In 2013, the Company recognized a 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.

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Under a discounted cash flow method, the fair value of the supply contract at December 31, 2015 was determined by using market prices from the Brazilian Intercontinental Exchange (“BRIX”) for the years 2016 through 2018 and extrapolating them over the remaining periods where market prices are not observable. Since the BRIX curve only provides forward pricing until June 2018, the inputs used in the valuation of the contract were considered Level 3. Electricity prices used in the valuation ranged from \$24 to \$35 U.S. dollars per megawatt hour for the years 2016 through 2018. The Company used the observable price from early 2018 of \$35 U.S. dollars per megawatt hour as the basis for the price in the remaining months of 2018. Changes in the fair value of the contract are reflected in “Other nonoperating income (expense), net” in the consolidated statements of income. During the years ended December 31, 2015, 2014 and 2013, the Company recognized \$120.1 of expense, \$47.6 of income and \$63.3 of income, respectively. These amounts are reflected within “Other, net” in “Cash flows from operating activities” in the consolidated statements of cash flows. The derivative was reflected in “Other noncurrent liabilities” and “Other noncurrent assets” in the consolidated balance sheets as of December 31, 2015 and 2014, at \$9.2 and \$110.9, respectively.

Other derivative balances and hedging activities were not material to the financial position or results of operations of the Company.

## NOTE 11 – 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, 2015, the maximum exposure to loss was \$157.7.

## NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment were as follows:

	Estimated Useful Life (Years)	December 31,	
		2015	2014
Land	-	\$ 128.2	\$ 138.8
Land improvements	11-20	349.8	355.3
Buildings	18-33	2,208.3	2,248.4
Machinery and equipment	3-25	7,734.5	7,774.8
Construction-in-progress	-	153.1	165.8
Total property, plant and equipment		\$ 10,573.9	\$ 10,683.1
Accumulated depreciation		(5,487.6)	(5,276.3)



Net property, plant and equipment	\$ 5,086.3	\$ 5,406.8
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The Company recorded depreciation expense of \$415.0, \$486.0, and \$484.0 for the years ended December 31, 2015, 2014, and 2013, respectively.

The amount of interest capitalized as a component of the cost of capital assets constructed for the years ended December 31, 2015, 2014, and 2013 was \$6.7, \$5.1, and \$16.5, respectively.

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## NOTE 13 – GOODWILL AND OTHER INTANGIBLE ASSETS

As of December 31, 2015 and 2014, the Company had gross goodwill of \$55.7 and \$61.9, 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, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and licenses	\$ 5.6	\$ (4.5)	\$ 1.1
Completed technology	13.3	(10.7)	2.6
Electricity contract	35.3	(17.7)	17.6
Land use rights	49.2	(7.9)	41.3
Other	22.4	(21.0)	1.4
Total	\$ 125.8	\$ (61.8)	\$ 64.0

  

	December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net 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

The Company recorded amortization expense related to these intangible assets of \$4.4, \$5.3, and \$6.1 for the years ended December 31, 2015, 2014, and 2013, respectively. The estimated aggregate amortization expense to be recorded in each of the next five years is as follows: 2016 - \$4.4, 2017 - \$4.4, 2018 - \$4.5, 2019 - \$3.3, and 2020 - \$3.1.

## NOTE 14 – NOTES PAYABLE AND CREDIT FACILITIES

## 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, 2015, 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 as of December 31, 2014. The Company subsequently closed or amended these credit facilities and did not have any

significant unused and committed credit facilities with these banks as of December 31, 2015.

#### Long-Term Debt

Amounts reflected in “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 \$6.1 and \$7.0 as of December 31, 2015 and 2014, respectively.

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Long-term debt consisted of the following:

	Years Ended December 31,			
	2015	Rates	2014	Rates
Long-term debt				
Variable rate notes due 2016	\$ -		\$ 150.0	1.3%
Fixed rate notes due 2018	350.0	4.1%	350.0	4.1%
Variable rate bonds due 2019	0.5	0.1%	2.0	0.2%
Fixed rate notes due 2021	350.0	4.8%	350.0	4.8%
Other obligations and capital leases	90.4	1.9-9.0%	100.4	2.6-9.0%
Total long-term debt	\$ 790.9		\$ 952.4	
Less current maturities of long-term debt	6.1		7.0	
Total long-term debt due after one year	\$ 784.8		\$ 945.4	

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. The Company repaid the entire loan balance as of December 31, 2015.

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, 2015, the fair values of Series A Notes and Series B Notes were \$362.6 and \$376.8, respectively.

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: 2016 - \$6.1, 2017 - \$5.8, 2018 - \$355.6, 2019 - \$5.7, and \$417.8 for 2020 and beyond.

Cash paid for interest during the year ended December 31, 2015, 2014, and 2013 was \$55.5, \$50.1, and \$57.8, respectively.

#### Sales of Receivables

The Company maintains an accounts receivable facility with a bank in Japan which expires in March 2016. The discount rate under this facility is the equivalent of TIBOR plus 0.25%. For the year ended December 31, 2015, the Company had no sales of receivables or proceeds under this facility. The Company sold receivables in the amount of \$77.2 to this bank in exchange for cash proceeds of \$77.2 during the year ended December 31, 2014. 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 2016. The interest rate under this facility is based on LIBOR. As of December 31, 2015 and 2014, 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 \$31.1 and \$37.2 as of December 31, 2015 and 2014, respectively.

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## NOTE 15 – 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. The revenue associated with the agreements was originally 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. The revenue associated with these product sales agreements is now recognized using invoice-based pricing with a ratable recognition of existing deferred revenue amounts.

Under certain agreements, customers were required to make initial non-refundable advanced cash payments. During the year ended December 31, 2014, the Company received advanced payments of \$65.8. The Company did not receive any advanced payments during the year ended December 31, 2015 and 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, 2015 and 2014, was \$2,808.4 and \$3,202.3, respectively. The changes in deferred revenue were as follows:

	2015	2014	2013
Beginning balance as of January 1	\$ 3,202.3	\$ 3,442.6	\$ 3,572.3
Average price revenue generated	-	-	-
Average price revenue recognized	(13.6)	(19.4)	(15.8)
Advanced payments received	-	65.8	111.2
Advanced payments applied	(197.8)	(246.6)	(175.4)
Contract resolution / other	(182.5)	(40.1)	(49.7)
Ending balance as of December 31	\$ 2,808.4	\$ 3,202.3	\$ 3,442.6

Current deferred revenue of \$254.8 and \$319.6 was recorded in the consolidated balance sheets as of December 31, 2015 and 2014, 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 16 – PENSION AND OTHER POSTRETIREMENT BENEFITS

## Defined Benefit Pension Plans

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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:

	U.S. Plans			Non-U.S. Plans			Total		
Years Ended December 31, Net Periodic Benefit Cost	2015	2014	2013	2015	2014	2013	2015	2014	2013
Service cost	\$ 71.5	\$ 49.9	\$ 61.6	\$ 13.2	\$ 13.2	\$ 26.0	\$ 84.7	\$ 63.1	\$ 87.6
Interest cost on projected benefit obligations	91.3	90.3	83.1	25.6	33.7	30.5	116.9	124.0	113.6
Expected return on plan assets	(82.4)	(74.8)	(71.6)	(27.8)	(34.8)	(30.6)	(110.2)	(109.6)	(102.2)
Amortization of net prior service costs	2.4	2.4	2.4	0.9	1.0	1.2	3.3	3.4	3.6
Amortization of net losses	69.6	39.4	59.1	7.2	4.2	11.9	76.8	43.6	71.0
Other adjustments	-	-	-	-	-	2.6	-	-	2.6
Total	\$152.4	\$107.2	\$134.6	\$ 19.1	\$ 17.3	\$ 41.6	\$171.5	\$124.5	\$176.2

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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	
	2015	2014	2015	2014	2015	2014
Amortization of net prior service costs	\$ (2.4)	\$ (2.4)	\$ (0.6)	\$ (0.6)	\$ (3.0)	\$ (3.0)
Amortization of net losses or settlement recognition	(69.6)	(39.4)	(7.7)	(4.0)	(77.3)	(43.4)
Net loss (gain) arising during the year	(78.7)	377.9	(71.1)	78.9	(149.8)	456.8
Total	\$ (150.7)	\$ 336.1	\$ (79.4)	\$ 74.3	\$ (230.1)	\$ 410.4

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	
	2015	2014	2015	2014	2015	2014
Projected benefit obligation	\$ 2,329.8	\$ 2,458.4	\$ 723.3	\$ 826.4	\$ 3,053.1	\$ 3,284.8
Accumulated benefit obligation	1,982.8	2,080.1	705.2	808.0	2,688.0	2,888.1
Fair value of plan assets	1,490.2	1,483.9	581.9	608.6	2,072.1	2,092.5

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	
	2015	2014	2015	2014	2015	2014
Change in benefit obligation						
Projected benefit obligation, beginning of year	\$ 2,458.4	\$ 1,948.3	\$ 951.3	\$ 867.9	\$ 3,409.7	\$ 2,816.2
Service cost	71.5	49.9	13.2	13.2	84.7	63.1
Interest cost	91.3	90.3	25.6	33.7	116.9	124.0
Actuarial (gains) losses	(196.5)	482.0	(80.4)	141.4	(276.9)	623.4
Foreign currency exchange rate changes	-	-	(53.6)	(75.9)	(53.6)	(75.9)



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Benefits paid and settlements	(94.9)	(112.1)	(27.7)	(29.0)	(122.6)	(141.1)
Projected benefit obligation, end of year	\$ 2,329.8	\$2,458.4	\$ 828.4	\$ 951.3	\$ 3,158.2	\$ 3,409.7
Fair value of plan assets						
Fair value of plan assets, beginning of year	\$ 1,483.9	\$1,330.5	\$ 697.7	\$ 661.1	\$ 2,181.6	\$ 1,991.6
Actual return on plan assets	(35.4)	179.0	18.4	97.2	(17.0)	276.2
Foreign currency exchange rate changes	-	-	(39.7)	(50.0)	(39.7)	(50.0)
Employer contributions	136.6	86.5	17.5	18.4	154.1	104.9
Benefits paid and settlements	(94.9)	(112.1)	(27.7)	(29.0)	(122.6)	(141.1)
Fair value of plan assets, end of year	\$ 1,490.2	\$1,483.9	\$ 666.2	\$ 697.7	\$ 2,156.4	\$ 2,181.6
Funded status of plans	\$ (839.6)	\$ (974.5)	\$ (162.2)	\$ (253.6)	\$ (1,001.8)	\$ (1,228.1)
Accumulated benefit obligation	1,928.8	2,080.1	769.7	875.8	2,752.5	2,955.9

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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, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 9.0	\$ -	\$ -	\$ 9.0
Equity securities	198.9	3.4	-	202.3
Corporate debt securities	-	370.0	-	370.0
U.S. government debt securities	-	232.1	-	232.1
U.S. government guaranteed mortgage backed securities	-	15.2	-	15.2
Other governmental debt securities	1.1	60.5	-	61.6
Investment funds	40.8	1,222.6	-	1,263.4
Other	-	2.8	-	2.8
Total	\$ 249.8	\$ 1,906.6	\$ -	\$ 2,156.4

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
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

The changes in fair value of Level 3 assets for the year ended December 31, 2015 were as follows:

Beginning balance as of January 1, 2015	\$ 0.4
Actual return on assets	-
Purchases	-
Sales	(0.4)
Ending balance as of December 31, 2015	\$ -

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.

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Amounts recorded in the consolidated balance sheets as of December 31 were as follows:

	U.S. Plans		Non-U.S. Plans		Total	
	2015	2014	2015	2014	2015	2014
Current benefit liabilities	\$ (6.7)	\$ (6.1)	\$ (5.0)	\$ (4.2)	\$ (11.7)	\$ (10.3)
Noncurrent benefit liabilities	(832.9)	(968.4)	(157.2)	(249.4)	(990.1)	(1,217.8)
Total recognized liabilities	\$ (839.6)	\$ (974.5)	\$ (162.2)	\$ (253.6)	\$ (1,001.8)	\$ (1,228.1)

Amounts recognized in  
accumulated other  
comprehensive loss (pre-tax)

Prior service cost	\$ 5.7	\$ 8.1	\$ 3.4	\$ 4.4	\$ 9.1	\$ 12.5
Net loss	914.9	1,063.2	125.7	214.6	1,040.6	1,277.8
Accumulated other comprehensive loss	\$ 920.6	\$ 1,071.3	\$ 129.1	\$ 219.0	\$ 1,049.7	\$ 1,290.3

The Company expects to recognize \$54.2 of net loss and \$3.2 of net prior service cost as a component of net periodic pension cost in 2016 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 \$43.8 of net unrecognized asset losses associated with its U.S. pension plans as of December 31, 2015 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, 2015, the fair value of plan assets included 40% of equity securities and 60% of debt securities which is consistent with plan targets. 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.

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 \$126.7 are planned for the U.S. plans in 2016. Contributions of approximately \$18.0 are planned for non-U.S. plans in 2016.

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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	
	2015	2014	2015	2014	2015	2014
Discount rate	4.2%	3.8%	3.2%	2.8%	4.0%	3.5%
Rate of increase in future compensation levels	4.3%	4.3%	1.0%	1.0%	3.4%	3.4%

  

	Net Periodic Pension Cost for the Years Ended December 31,								
	U.S. Plans			Non-U.S. Plans			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Discount rate	3.8%	4.8%	4.0%	2.8%	4.0%	3.8%	3.5%	4.5%	4.0%
Rate of increase in future compensation levels	4.3%	4.3%	4.3%	1.1%	1.0%	3.6%	3.4%	3.4%	4.1%
Expected long-term rate of return on plan assets	5.6%	5.6%	5.6%	4.5%	5.6%	5.6%	5.3%	5.6%	5.6%

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.

For 2015, the Company measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. For 2016, the Company elected to change its approach and measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. The Company believes the new approach provides a more precise measurement of service and interest costs by aligning the timing of the plans' liability cash flows to the corresponding spot rates on the yield curve. This change does not impact the measurement of the plan obligations. The Company has accounted for this change as a change in accounting estimate and, accordingly, will account for it on a prospective basis.

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. In 2015, the SOA released an updated improvement scale which was also implemented by the Company, resulting in a decrease to the Company's benefit obligation as of December 31, 2015.

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, 2015 and include benefits attributable to future employee service.

	Estimated Future Benefit Payments		
	U.S. Plans	Non-U.S. Plans	Total
2016	\$ 93.6	\$ 27.1	\$ 120.7
2017	95.7	29.9	125.6
2018	98.7	31.7	130.4
2019	102.0	34.0	136.0
2020	106.0	32.7	138.7
2021-2025	601.9	207.8	809.7

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## 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,		
		2015	2014	2013
Net Periodic Postretirement Benefit Cost				
	Service cost	\$ 4.8	\$ 4.7	\$ 5.9
	Interest cost	11.9	12.7	13.4
	Amortization of prior service credits	(3.1)	(1.5)	(1.6)
	Amortization of actuarial losses	6.9	4.1	8.7
Total		\$ 20.5	\$ 20.0	\$ 26.4

Other changes in benefit obligations that were recognized in or reclassified from other comprehensive income included:

		Years Ended December 31,	
		2015	2014
Amortization of prior service credits		\$ 3.1	\$ 1.5
Amortization of loss		(6.9)	(4.1)
Prior service credit arising during the year		-	(19.7)
Net loss (gain) arising during the year		(18.9)	29.5
Total		\$ (22.7)	\$ 7.2

The reconciliation of the beginning and ending balances of the accumulated postretirement benefit obligation was as follows:

		December 31,	
		2015	2014
Change in accumulated postretirement benefit obligation			
	Accrued postretirement benefit obligation at beginning of year	\$ 329.2	\$ 320.0
	Service cost	4.8	4.7
	Interest cost	11.9	12.7
	Actuarial loss/(gain)	(18.9)	29.5
	Plan change	-	(19.7)
	Benefits paid	(13.1)	(18.0)
Accumulated postretirement benefit obligation at end of year		\$ 313.9	\$ 329.2
Funded status of plans		\$ (313.9)	\$ (329.2)
Amounts recognized in the consolidated balance sheets			
	Current benefit liabilities	\$ (18.1)	\$ (17.8)
	Noncurrent benefit liabilities	(295.8)	(311.4)
	Total recognized liabilities	\$ (313.9)	\$ (329.2)



Amounts recognized in accumulated other comprehensive loss (pre-tax)

Prior service credit	\$ (18.7)	\$ (21.8)
Net loss (gain)	82.8	108.6
Accumulated other comprehensive loss	\$ 64.1	\$ 86.8

The Company expects to recognize \$5.1 of net loss and \$3.1 of net prior service credit as a component of net periodic postretirement benefit cost in 2016.

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The health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 7.7% and 7.9% in 2015 and 2014, respectively. In both 2015 and 2014, 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 1.6% and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 2015 by 1.4%. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation by 1.3% and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 2015 by 1.1%.

The discount rate used to determine the accumulated postretirement benefit obligation as of December 31, 2015 and 2014 was 4.0% and 3.8%, respectively. The discount rate used to determine net periodic postretirement benefit cost for the years ended December 31, 2015, 2014, and 2013 was 3.8%, 4.5%, and 3.8%, 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. For 2016, the Company elected to change its approach and measure service and interest costs for the U.S. postretirement health care benefit plans consistent with the change to the U.S. defined benefit plans discussed above. The Company has accounted for this change as a change in accounting estimate and, accordingly, has accounted for it on a prospective basis.

The Company funds most of the cost of the postretirement health care as incurred. Benefit payments to retirees were \$13.4 for the year ended December 31, 2015. Reimbursements received under Medicare Part D were \$0.3 for the year ended December 31, 2015. 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, 2015.

	Estimated Postretirement Benefit Payments
2016	\$ 18.2
2017	18.5
2018	18.9
2019	19.2
2020	19.5
2021-2025	100.9

## 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 \$19.4, \$17.1, and \$17.8 for the years ended December 31, 2015, 2014, and 2013, 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, 2015 were \$17.9. The Company expects to make contributions of \$19.4 to all defined

contribution plans during 2016.

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## NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS

A summary of the components of accumulated other comprehensive loss for the years ended December 31, 2015, 2014, and 2013, included the following components:

	Foreign currency translation adjustment	Unrealized net gain (loss) on available for sale securities	Net gain (loss) on cash flow hedges <sup>1</sup>	Unamortized pension losses and prior service costs <sup>2</sup>	Accumulated other comprehensive income (loss)
Balance as of December 31, 2012	\$ 217.5	\$ 2.0	\$ (3.5)	\$ (852.6)	\$ (636.6)
Other comprehensive income 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 comprehensive income (loss)	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 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 (loss)	(158.1)	(7.8)	-	(276.7)	(442.6)
Balance as of December 31, 2014	\$ 71.0	\$ (2.1)	\$ -	\$ (883.3)	\$ (814.4)
Other comprehensive income before reclassifications	(130.9)	2.8	2.6	108.3	(17.2)
Amounts reclassified from AOCI <sup>3</sup>	-	-	-	54.4	54.4
Net current-period other comprehensive income (loss)	(130.9)	2.8	2.6	162.7	37.2
Balance as of December 31, 2015	\$ (59.9)	\$ 0.7	\$ 2.6	\$ (720.6)	\$ (777.2)

<sup>1</sup> Net of tax effect of \$(1.5), \$(0.0), and \$(2.1) for the years ended December 31, 2015, 2014, and 2013, 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 \$(81.4), \$141.9, and \$(130.1) for the years ended December 31, 2015, 2014, and 2013, 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 16 for additional details).

A summary of the tax effects of gains and losses arising during the period and reclassification of gains included in income for the years ended December 2015, 2014, and 2013 included the following components:

	Years Ended December 31,		
	2015	2014	2013
Net gain (loss) on cash flow hedges:			
Gain (loss) arising during the period	\$ (1.5)	\$ -	\$ (0.1)
Less: reclassification for gain included in income	-	-	(2.0)
Net unrealized gain (loss) on cash flow hedges	(1.5)	-	(2.1)
Defined benefit plan adjustments:			
Net gain (loss) arising during the period	(52.1)	159.4	(99.6)
Less: amortization of pension adjustments in net income	(29.3)	(17.5)	(28.4)
Defined benefit plans, net	(81.4)	141.9	(128.0)
Total tax (expense) benefit	\$ (82.9)	\$ 141.9	\$ (130.1)

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## NOTE 18 – 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. For the years ended December 31, 2015, 2014, and 2013 the Company recognized gains of \$6.9, \$0.4, and \$24.2 in “Other nonoperating income (expense), net” in the consolidated statements of income in connection with insurance settlements. As of December 31, 2015, the Company and its insurers have made life-to-date payments of \$1,760.1 to the Settlement Facility and the Settlement Facility reported an unexpended balance of \$176.2. 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.



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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. Through December 31, 2015, the Settlement Facility reported that approximately \$1.2 billion in funds had been distributed to Class 5 claimants. Filing deadlines for all settlement benefits in this group, other than "Disease" benefits, have expired. Class 5 claimants remain eligible to file claims under the "Disease" benefit category through June 1, 2019. Through December 31, 2015, the Settlement Facility reported that approximately 59,000 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 61,000 Class 5 claimants remain potentially eligible to file "Disease" claims as of December 31, 2015. 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.

Since the Effective Date, approximately 740 opt-out lawsuits have been brought against the Litigation Facility. As of December 31, 2015, the Settlement Facility reported that approximately \$36.2 has been expended by the Litigation Facility and 14 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 had determined that through 2014, adequate time has passed and sufficient actual claim experience had 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 adjustments” in the consolidated statements of income.

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In 2015, the Debtors Representatives of the Company and the Claimants Advisory Committee jointly developed and submitted a proposed consent order that would allow processing and payment activities to commence for a sub-class of claimants that was previously dormant. As a result of the terms of the joint consent order, which was approved by the Court on December 3, 2015, management reduced the estimated liability by \$65.3 and reflected the reduction in “Implant liability adjustments” in the consolidated statements of income. The estimated liability was also reduced in 2015 due to application of insurance proceeds received in the amount of \$6.9. The estimated liability was \$291.4 as of December 31, 2015.

Management is not aware of circumstances that would change the factors used in adjustments described above and believes the recorded 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 \$1,765.0 as of December 31, 2015.

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, 2015, the maximum amount had been paid to Dow Chemical.

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, 2015, Dow Chemical had given notice to the Company that it has thus far incurred \$176.0 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”).

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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, 2015, the Company has paid approximately \$1.5 billion to the Commercial Creditors, representing principal and the Undisputed Portion. As of December 31, 2015, the Company has estimated its liability payable to the Commercial Creditors to be within a range of \$103.8 to \$340.5. 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, 2015 and December 31, 2014, 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 \$102.3 and \$97.4, 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 26 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.

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 \$40.8. 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 \$7.0 and \$4.1 as of December 31, 2015 and 2014, 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.

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## 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.

In the second quarter of 2015, the Company reached an agreement to settle an intellectual property dispute. Resolution of the dispute resulted in a net gain of \$28.6 million in "Other nonoperating income (expense), net" in the consolidated statements of income.

## 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, 2015, 2014, and 2013 lease expense was \$46.4, \$52.9, and \$51.4, respectively. The minimum future lease payments required under noncancellable operating leases as of December 31, 2015 in the aggregate are \$214.6, including the following amounts due in each of the next five years: 2016 - \$39.3, 2017 - \$30.0, 2018 - \$21.7, 2019 - \$19.4, and 2020 - \$16.9.

## NOTE 19 – 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.

## NOTE 20 – 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,		
	2015	2014	2013
Sales to Dow Chemical	\$ 21.5	\$ 19.3	\$ 17.0
Sales to Corning	15.1	15.4	18.9
Purchases from Dow Chemical	45.9	52.4	69.3
	December 31,		
	2015	2014	
Accounts receivable from Dow Chemical	\$ 1.7	\$ 2.1	
Accounts receivable from Corning	0.6	1.0	
Accounts payable to Dow Chemical	2.9	3.9	



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Amounts shown as payable to Dow Chemical exclude balances owed under the insurance allocation agreement disclosed in Note 18. 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,		
	2015	2014	2013
Sales to nonconsolidated affiliates and noncontrolling shareholders	\$ 472.4	\$ 461.1	\$ 528.6
Purchases from nonconsolidated affiliates and noncontrolling shareholders	378.1	357.0	337.6
	December 31,		
	2015	2014	
Accounts receivable from nonconsolidated affiliates and noncontrolling shareholders	\$ 54.8	\$ 91.6	
Accounts payable to nonconsolidated affiliates and noncontrolling shareholders	38.4	24.6	

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 loans were fully repaid as of December 31, 2015 and the amount of loans receivable as of December 31, 2014 was \$34.6. The balance was 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 705.0 Renminbi (\$108.6 and \$115.2 U.S. dollars, respectively) as of December 31, 2015 and 2014, 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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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

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(in thousands, except share and per share amounts)	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 2,525,381	\$ 1,609,360
Short-term financial instruments	190,025	844,365
Accounts and notes receivable		
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
Total current assets	3,564,945	3,491,131
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
Total assets	\$ 7,086,863	\$ 7,385,686
Liabilities and Equity		
Current liabilities		
Accounts payable		
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
Total current liabilities	337,413	405,212
Accrued severance benefits, net	-	5,975
Non-current deferred income tax liabilities, net	210,740	247,185
Total liabilities	548,153	658,372
Commitments and contingencies		

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
Shareholders' equity		
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
Total Samsung Corning Precision Materials equity	6,528,530	6,715,137
Noncontrolling interests	10,180	12,177
Total equity	6,538,710	6,727,314
Total liabilities and equity	\$ 7,086,863	\$ 7,385,686

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

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(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

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(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

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(in thousands)	2013	2012	2011
Cash flows from operating activities			
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
Cash flows from investing activities			
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)
Cash flows from financing activities			
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)
	133,985	379,536	(24,063)

Effect of exchange rate changes on cash and cash equivalents

Net increase (decrease) in cash and cash equivalents

916,021	(87,608)	(33,216)
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Cash and cash equivalents

Beginning of year	1,635,434	1,723,042	1,756,258
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End of year	\$ 2,551,455	\$ 1,635,434	\$ 1,723,042
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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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Samsung Corning Precision Materials Co., Ltd.  
Notes to Consolidated 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. à r.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
Non-cash transactions			
Acquisition of capital assets included in accounts payable	\$ 9,364	\$ 42,463	\$ 31,958
Cash paid for interest and income taxes			
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) <sup>1</sup>	\$ 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. à.r.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
Discontinued Operations:			
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
Assets		
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
Liabilities		
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

1 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) (in thousands)	Sales <sup>4</sup>	Purchases <sup>5</sup>	Services Expensed	Receivables	Payables
Samsung affiliates					
Samsung Display	\$ 1,597,601	\$ -	\$ 2,475	\$ 241,901	\$ 281
Samsung C&T Corporation	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) (in thousands)	Sales <sup>4</sup>	Purchases <sup>5</sup>	Services Expensed	Receivables	Payables
Samsung affiliates					
Samsung Display	\$ 2,231,298	\$ 29,919	\$ 2,312	\$ 349,236	\$ 521
Samsung C&T Corporation	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

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Corning	126,041	79,691	89,535	31,836	6,386
	\$ 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) (in thousands)	Sales <sup>4</sup>	Purchases <sup>5</sup>	Services 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
Current			
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)

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Acquisition of subsidiary's stock	-	-	(26,074)
OCI attributable to noncontrolling interest, 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
Appropriated		
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
Unappropriated	5,580,259	5,845,597
	\$ 5,749,288	\$ 6,040,493

## 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 Gains and Losses on Available-for- sale securities	Foreign currency translation 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 in the consolidated 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. à r.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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