James R. Houghton
Chairman & Chief Executive Officer

to our Shareholders:

Corning Incorporated's performance during 2004 tells a story not only of turnaround, but of growth. It is a story not only of surviving the greatest challenges in our history, but of thriving again in some of the world's most exciting technology markets.

For two years in a row, Corning management and staff all over the world have delivered significant improvement for our shareholders, continuing to implement the plan our Management Committee formulated and launched in mid-2002. We have rebuilt a strong financial foundation for the company — and in turn, we have been able to invest in several significant growth initiatives that are building our strategic position and yielding returns for our shareholders.

We continue to be at the leading edge of a wide variety of high-growth industries — certainly with our liquid crystal display products, but also as innovation leaders in environmental and telecommunications products. Additionally, we are making significant technology advances in products for the life sciences industry.

Across all these activities, we are focused on a strategy that will fuel our long-term growth and sustain shareholder value. And we are executing that strategy on an increasingly global scale. Asia, in particular, has become a technology hotbed for the entire world, and we are operating effectively within that region to fully leverage all our global opportunities.

Our priorities for 2004

As we have done for the past few years, we structured our operating plan for 2004 against a set of very specific priorities. Here's a recap of our accomplishments:

■ Protecting our financial health

Corning's liquidity remains strong. We ended the year with $1.9 billion in cash and short-term investments — exceeding the target we had set for ourselves. Our $2 billion revolving credit agreement remains untouched, just as it has been for the past several years.

We reduced our overall debt to less than $2.7 billion. With the non-cash asset write-offs we took in the third quarter, our debt-to-capital ratio increased to 41 percent, but that should come down as we continue to reduce debt in the year ahead.

With all these encouraging factors in place, the major rating agencies improved their view of our credit during 2004. This is an important step toward our return to investment-grade ratings, a goal we are looking forward to achieving in 2005.

We have continued to focus on achieving positive free cash flow — or, simply put, bringing in more cash from operations than we spend on capital and investments. This is an ongoing challenge, particularly since our renewed growth requires a considerable amount of capital spending. But with a system-wide focus on controlling our spending — even as our overall financial picture improved — we ended the year on the positive side, well ahead of our free cash flow targets.