Protecting our financial health

We ended the year with a very strong balance sheet, having met a number of goals we set for ourselves more than two years ago.

One of those goals was to substantially reduce our debt levels while at the same time maintaining a healthy cash portfolio. *We have done exactly that,* meeting all our milestones for cash preservation and debt reduction. We have reduced our debt by 45 percent since the beginning of 2002 and we continue to reduce it. We are maintaining significant cash on hand, ending 2003 with $1.3 billion in cash, cash equivalents and short-term investments. And we continue to have access to our $2 billion revolving credit agreement.

We are now focused on returning to an investment-grade credit rating, and we are continuing to meet important milestones in our progress toward this goal. Two rating agencies took us off "negative" outlook in 2003 — the remaining one followed suit in early 2004. This is a first step toward a ratings upgrade. We are driving to achieve investment-grade metrics in 2005 and hope that the agencies will upgrade us then. That will be yet another sign to everyone that we are a strong, financially sound company — and, we will no longer have to carry such large cash balances, instead freeing up that cash for prudent investments in our business.

Returning to profitability

We are very proud of the fact that we met our goal of restoring profitability, before special items, in 2003. Our operations became profitable in the second quarter, one full quarter before Wall Street expected it. By the third quarter, we were solidly profitable without equity earnings from Dow Corning, just as we promised we would be.

By year-end, we had more encouraging news to report. We improved our profitability by more than $500 million, before special items — the most significant year-to-year improvement in our history. With sales of $ 3.1 billion, we reduced operating expenses more than 20 percent and made substantial gains in our gross margins.

We were able to reach this goal by rigorously focusing on three critical areas: stabilization of sales volumes in our telecommunications segment; dramatic cost reduction throughout our telecommunications businesses; and continued robust growth of our liquid crystal display glass products.

Investing in our future

Of course, now that we have returned to profitability, we are committed to *sustaining* and *growing* that profitability. Even through the downturn, we remained committed to investing in innovation, as this has always been the source of our strength — and it will remain that way.

Although we're investing in a wide variety of technologies — including those in the life sciences arena and optical materials for the semiconductor industry — we're placing particular emphasis on three areas that we believe will set the stage for our next wave of growth: liquid crystal displays; environmental substrates and filters for diesel applications; and the telecommunications segment products that will enable fast, secure broadband connections to homes and businesses, a technology we refer to as fiber to the x (FTTx). We are highlighting these growth areas in this report, and I'm sure you'll share my excitement when you read about each of them.

Our people

Meeting all these priorities could not happen without the *people* who form our global workforce, and an essential part of our recovery strategy has been a relentless concentration on this most valuable asset. I consider this a priority that spans across all the others, and I know that members of our leadership team share this belief.

We have been very open about telling our people how much we need them. They have been the key to leading us out of difficult times and toward the very exciting future we can all share.

We're keenly aware that our people have been through extremely difficult times these past few years. It's easy to get discouraged when you've experienced the exuberant growth of the late 1990s, followed by the rapid downturn and resulting layoffs that marked 2001 and 2002.