FINAL TRANSCRIPT

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PRESENTATION

Kevin McCarthy - *BAS-ML - Analyst*

Pleased you could attend our 2010 Global Industries Conference. My name is Kevin McCarthy, I cover US chemical stocks here at the firm and we're very pleased to welcome our next presenting company, PPG industries.

PPG as many of you know is the second-largest paint company in the world with a wide product line spanning automotive, architectural, industrial packaging, aerospace and other coatings. It's a $13 billion US equity market cap company and we're very pleased to welcome Vince Morales who directs investor relations for the Company as well as our speaker today, Bob Dellinger, Chief Financial Officer of PPG.

Bob joined PPG a little over a year ago and assumed the CFO responsibilities in October of 2009, having spent the bulk of his career at General Electric. So, Bob, thank you so much for attending today. We look forward to your update on PPG.

Bob Dellinger - *PPG Industries - CFO*

Hey, Kevin, thank you and it's a pleasure to be with you this morning. And thank you to Bank of America and Merrill Lynch for the invitation and the opportunity to talk about PPG.

As usual, you view the fair warning on forward-looking announcements. In addition I would tell you we did our investor day yesterday, so there are 75 pages. They're on our website. It's a fairly comprehensive discussion of PSEG's performance, the story and some input has -- relative to outlook, we don't give guidance, but there's some thoughts about how we're thinking about growth and some other financial metrics; pension expense, uses of cash, etc. So I would encourage you to look at that on our PPG website in the Investor Center and you can see all the charts as well as I believe a replay of the call as well.

I would like to spend just a minute on a little introduction to PPG for those of you who aren't familiar with the story and then we'll into some more specifics. We will spend about 20 minutes on charts and hopefully have time for about 20 minutes of Q&A.

Our vision is to be a leading coatings and specialty materials company, and this has been a pretty consistent vision for us for a number of years, and I will talk about some of the progress we've made in transforming our portfolio which if you go back 10 years ago was in multiple lines of business. But we have certainly gotten more focused recently.

So focus on coatings and specialty, drive innovation, new technologies, expand our presence in emerging regions and we've made a huge amount of progress in Asia and I'll walk through that as well. Strengthen our portfolio of businesses and enhance operational execution, operational excellence, so by leveraging our global scale.

I think the most important thing is our vision is clear, it's been constant, the strategy are in place for 10 years and we've made significant progress in moving forward. So if you go back in time to 2001, we were about an $8 billion business and our coatings and optical businesses which is our core focus was about a $5 billion business. Jump forward to today, we're north of $13 billion in sales for full-year 2010 and coatings and optical has more than doubled to $11 billion.

So our sales have grown 60% since 2001. Coatings and optical has doubled in size and is delivering about a 10% compounded average annual growth rate and represents just under 85% of the Company. So we made a huge amount of progress in transforming the Company to what we want to be which is principally a coatings and specialty material optical business

The focus on coatings and specialty material makes sense given their growth metrics. What we've done is we have cut out three separate period of time and we have looked at the growth that we've experienced in coatings and optical versus some indicators of the market; so US industrial production, global industrial production, US GDP.

And you can see in almost every period and the one exception is probably the significant recession at 2009, particularly its impact on automotive, we have grown at some multiple of these underlying economic indicators. So I think this is a growth story.

We do know how to grow at rates faster than the economy and we have done this pretty consistently over these multiple time periods with probably one miscue in 2009 where we had a brief period where we fell a little faster than the economy in general given our business mix. So organic sales typically growing at a multiple of the underlying economic indicators, GDP, or global industrial production.

It's a pretty attractive global industry, so if you go back to 2002, a $65 billion business worldwide. You can see the mix of competitors -- Akzo, PPG, ITI, Sherwin, DuPont, etc. -- and then a whole series of smaller competitors particularly outside the US and outside of Western Europe.

2008, a $90 billion business and you see significantly more concentration among the top players. So in the period 2002 to 2008, ICI was acquired.

We acquired SigmaKalon and you have seen a pretty good consolidation in the industry. So currently the top 10 players account for more than 50% of sales globally. So I think it's a well-consolidated industry. There is room for further consolidation. But as a result, this has been a pretty healthy business.

The next piece of the story is our expansion into emerging regions. So again, go back to 2001, just north of $8 billion in sales in emerging regions. So we would describe this as Latin America, Asia and Eastern Europe, 8% of our sales.

The US and Canada account for 74% of our sales. Today, $13 billion in sales, 46% of the business is in the US and Canada and 26% is in Asia, Latin America and Eastern Europe. And Asia and Latin America are clearly the fastest growing regions of the world for the global coatings market.

So with its clear, consistent, well-understood vision, I think pretty well executed on portfolio transformation, shift to sales, a focus on coatings and optical and good growth in the emerging regions of Asia and Latin America in particular. Now we're going to jump gears a little bit and talk about current financial performance and we will focus on third-quarter year to date and what is the volume story.

So as we go from third quarter year-to-date 2009, volumes about $9 billion will be north of $10 billion -- we were north of $10 billion third quarter year-to-date this year. And you can see that the principal driver is improved volumes.

So volumes are up significantly. And we saw the volume growth in every region of the world and this excludes foreign exchange changes and acquisitions.

But obviously the big drivers of volume growth were the emerging regions of Asia-Pacific and Latin America. So I think this is pretty consistent with what we see in economies around the world and Europe continues to be rather sluggish in its growth. So solid volume growth in 2010 lead by Asia and led by Latin America.

So while we saw volume growth, nearly $1 billion year to date in 2010, we are still well below where we were third quarter 2008, so pre-recession levels. So if you look at the chart on the right, you can see that Latin America is still lagging where it was in 2008.

Europe is well behind and US and Canada are well behind. The one exception is Asia-Pacific. Asia-Pacific has continued to growth through the recession, had a brief period of negative growth but is well above where it was third quarter 2008.

I think the message in this chart is we have lots of runway in front of us if we can get back to 2008 levels. So we have room for another 10% volume growth just to get back to where we were third quarter 2008. So as global economies continue to improve, I think we have lots of upside on the topline and the bottomline driven by organic volume growth as the markets recover.

PPG earnings, we went through a pretty significant restructuring in the latter half of 2008 and 2009. We took out about $250 million of structural cost and took out another $150 million of semi-variable costs.

The $250 million of structural cost changes, those will stay with us even as volume comes back. The $150 million of semi-variable, we will have to add some of that back as volume comes back.

But what we have seen -- so in spite of volumes 10% below where they were in 2008, we have seen near record earnings in the second quarter on an earnings per share basis and we set a new third-quarter record in -- excuse me -- we set a new record in earnings per share in the third quarter. So we're clearly getting the benefits of the cost savings with the rationalized cost structure, continued price discipline and should see consistent and strong upside as volumes continue to improve.

PPG earnings, and maybe just spend a minute on our effective tax rate. Our effective tax rate over the last decade has come down from 36% to -- we're forecasting 27% this year and expect to be in the 26 to 28% range next year, obviously very important to driving improvements in EPS.

And it's really driven by the mix of business, where are the earnings. So as we have grown in the emerging regions of Asia-Pacific, as we have done the acquisition of SigmaKalon in Europe, our US tax rates are in the mid-30% range, our tax rates for the rest of the world are in the low 20s or even lower than 20%. So we get a significant bounce as we improve our earnings mix on our effective tax rate. Again our expectations for the full year 2011 are in the 26 to 28% range.

Let's talk just a minute on Asia. Our mix of businesses in Asia, it's more than half in our performance coatings segment which consists of auto refinish, protective and marine, aerospace and architectural, less than 50% in our industrial businesses; automotive, OEM, general and industrial packaging. Performance coatings includes architectural, our architectural position in China is relatively small. It's significantly larger in Australia.

If you look at our geographic mix of where the sales are coming from across Asia, you can see that 48%, so nearly half, are coming from China. It's nearly a $2 billion business for us in Asia and it's been built over the last 20 years with most of that in the last 10 years. So again, we are participating broadly across all our segments in Asia-Pacific particularly in China and we're seeing very good growth in China as well.

Here's our footprint in Asia. You can see we're pretty well positioned everywhere except for Japan.

Japan is a pretty close market to a non-Japanese coatings producer. We do some aftermarket work particularly in the aerospace business with the big Japanese national air carriers.

But beyond that, we have a very small footprint in Japan. Well positioned in China, multiple factories, multiple operations. All our businesses are positioned in China principally led by Chinese national or at least Asian nationals; same in Korea.

This may be unique to our business. We own virtually all of these businesses, 100% outright with no partners. The one exception is in India. We do have a joint venture with Asian Paints who is a dominant producer in architectural in India.

Another important message on the financial side is we have seen a step change in our cash production starting in 2008 when we purchased SigmaKalon which is principally an architectural business covering Western Europe and a pretty good position in Eastern Europe and the emerging region of Africa. Historically we produce roughly $1 billion a year cash flow from operations and here we pick out the three years 2005, 2006 and 2007; you can see $1 billion a year.

2008, 2009 and through the third quarter of 2010, we are on pace to produce in excess of $1.3 billion. So you can see we've seen a significant step change in cash flow from operations and I think to some degree there's a story that the market has missed.

Our current cash balance is $2 billion. That consists of $930 million of cash on hand at September 30 and we borrowed an additional $1 billion to take advantage of what were very attractive interest rates.

As we have looked at interest rates over the last 20 years, the first week of November was about as good as we had ever seen. And so we executed a $1 billion debt offering of five-year, 10-year and 30-year paper, three tranches at record low interest rates for us.

So we took advantage of that. We will deploy that cash as follows. $250 million of it we will put in the pension plan. We will probably do that here late in December; if not, in early January.

That will result in reduced pension expense for us next year and our plan, our US pension plan will be fully funded under [ERISA calculations] so the Pension Protection Act. We will have no mandatory contributions to the US plan in 2011.

We will take $400 million of it and pay off early some short-term borrowings that aren't due until June of 2012, but we can pay them off in June of 2011 with no penalties. So we'll take advantage of that and we will have $350 million for general corporate purposes.

If you look at our cash deployment over the last 10 years, and I think this is a pretty good indicator of how we think about cash deployment going forward, 27% on average per year has gone to organic capital spending. Acquisitions, and we've done about 50 acquisitions over the last 10 years, has accounted for 35%.

26% goes to dividends. We have paid a dividend for I think 100 years straight -- 112 years straight. We've increased it 39 years in a row. That is a record we would like to continue.

I think there are five companies left that have as good a dividend history as we are. We're still yielding close to 3%, so a very attractive dividend yield.

So if you look at this chart, between share repurchases which on average have been 12%, it's been a fairly volatile number. It's been larger in some years and as low as zero in other years.

So if take the 26 plus the 12, nearly 40% of our cash production which has been very consistent over the last -- over '08 and '09, $1.3 billion, we're on pace to do that again. We've done $700 million through the third quarter of 2010.

Fourth quarter is generally our biggest cash production quarter. So 40% has been redeployed to shareholders and the balance has been invested for growth. And I would expect this to continue. So grow business 60%, return to shareholders 40%.

With that, I would turn it over to you for questions, and I would again remind you we went through 75 pages last yesterday. So there is a ton of information out there.

I would encourage you to go to the PPG website and the Investor Center on there and you will be able to get access to those charts as well. Happy to open it up to your questions and Vince and Kevin I'm sure would be happy to participate in that as well.

QUESTIONS AND ANSWERS

Kevin McCarthy - *BAS-ML - Analyst*

If anyone has a question for Bob, please raise your hand and we will bring a microphone right over. Just to kick it off, you've obviously got seasonality in your businesses. But as you look late fall, earlier part of the fourth quarter, how are your volumes trending relative to what you would normally expect in terms of seasonal patterns across the portfolio?

Bob Dellinger - *PPG Industries - CFO*

Yes, I think -- and again, I only have one year to model this on. But I think we're seeing pretty consistent seasonality.

Obviously if you go back over the last few years, we saw some wild gyrations because of the recession. I think we're returning to pretty normal seasonal patterns. Vince, anything to add to that?

Unidentified Audience Member

Yesterday you mentioned -- you had some comments on TIO2 costs that were problematic. Can you expand on that?

Bob Dellinger - *PPG Industries - CFO*

TIO2 is a component in most paints, particularly architectural coatings. It's what provides the hiding power so that one coat will cover whatever was underlying that material.

It is a very significant raw material element to all architectural coatings. It's a fairly small component or a much smaller component in our industrial coatings, in our performance coatings which represents about 70% of our business.

So architectural, 30% of our business and TIO2 is a major raw material. It is going up, there is some capacity constraint in the TIO2 market.

There's been no new plants built in a long time. The TIO2 makers have in general faced pretty weak margins and they're now in a position to raise prices.

I would expect them to do so and we will certainly plan to pass that on to our customers and I would expect other providers of architectural coatings, Sherwin, Akzo, etc. to also raise prices. So I think you'll see the market may take a quarter or two, but ultimately that gets pushed through to the end customers. TIO2 prices could be -- will be the largest increase on a percentage basis of any raw material we purchase I think in the next 12 months.

Kevin McCarthy - *BAS-ML - Analyst*

Just to follow up on that latter point about one of your competitors. They indicated they're moving US architectural price up about 8% here in the month of December, if I'm not mistaken. Can you comment on how much you have on the table in the US architectural market and also your ability to move price through in the European market as well?

Bob Dellinger - *PPG Industries - CFO*

Yes, I would -- let's break that into two questions. So in the US market in many instances over the last couple of years, we have led price increases. We're not the largest US architectural player.

We do participate in all markets and we sell through the do-it-yourself stores; so Loews, Menards. We have our own dealer channel and we own approximately 400 stores in the US.

Annual price increases are pretty common in that business and I think what you'll see for us is those annual price increases will be larger in the next 12 months than they have been historically given the run-up in TIO2 prices and the expected run-up. And I don't think we will be an outlier relative to what is going on with our competitors.

So price increases will be pretty consistent I think among most of the architectural coatings players given that we all purchased roughly the same raw materials from similar vendors and will likely face similar price increases. There is some work going on to look at alternatives, but those aren't necessarily easy or quick, and certainly suppliers are considering other competing products that they would like to offer into the market. So we'll see some developments over the course of the next 12 months.

The second question was about the pricing dynamics in the European architectural market. So our architectural coatings segment that covers Europe, Middle East and Africa has historically gotten price increases and that includes this year.

We got price increases in what was still a relatively soft market, and we would expect to see price increases next year. And in fact, many of those increases have already been announced and they roll in in the early part of the year in advance of what is the big paint and coatings market which is the spring, summer and into early fall months where most of the architectural coatings are used.

Our market in Europe is a little different. I think this is consistent with what other architectural coating suppliers in Europe see.

It's mostly a maintenance and repaint market. So this is people who own apartments or rented housing, they get repainted every two years. It's part of the contract. The landlord pays for that repainting. The tenant picks the color, etc.

So it's a more consistent business. It's not as dependent on new home construction. And our exposure to the countries in Europe that are facing some of the greatest difficulty, so referred to as the PIGS, and now I guess we have added another I to PIGS; so it's Portugal, Ireland, Italy, Greece and Spain.

We have a relatively small share there and that's been obviously somewhat of a positive for us as those countries have gone through particularly difficult times and they've seen the new home build in places like Spain just totally dry up. We were not a very strong player in that particular market and therefore weren't impacted by the decline.

Kevin McCarthy - *BAS-ML - Analyst*

Bob, you know, you're end-market profile kind of lends itself to making you a de facto -- your Company a de facto economist, regional economist. I was wondering if you could share your thoughts in particular about China.

So in the newspapers, we read about steps the government is taking to cool off the economy, deal with inflationary pressures and perhaps deflate or prick an asset bubble before it gets worse. So from your boots on the ground in China, how do you assess that?

Bob Dellinger - *PPG Industries - CFO*

So I read those articles too and every time I see them, that's my first phone call is to call the CFO or the business leader over there, what are you seeing? And with pretty universal consistency, they continue to see growth. And when there is an asset bubble announced [or a prominent certain] market, they continue to grow right through it.

So I think some of this is the Chinese government trying to manage the pace of growth. But the underlying dynamics is that all markets are growing in China and the consumers are demanding more from their products and therefore are expecting global standards and in their paint coatings, right?

They are buying the same cell phones that we are all carrying, BlackBerry's, whatever. Their cars are painted with the same coatings and we don't really -- we haven't seen economic distortions or disruptions as these little asset bubbles tend to occur in China.

Now part of this is we're not a very big architectural player in there. We have a very small position in the architectural coatings market in China, principally in Shanghai.

We continue to look for opportunities to improve that position, but it's a challenging market because it's very fragmented and it's very regional as far as distribution. There's lots of manufacturers. But in other markets -- packaged coatings, consumer electronics, automotive -- we're seeing pretty consistent growth and we have very strong positions, number one or a number two position in many of those markets.

Unidentified Audience Member

I wanted to ask about the optical business. In one of the slides from yesterday I believe you show penetration rates for transitional lenses at 20% in North America and 5% globally. Where do you see the steady state for penetration rate for these products?

Bob Dellinger - *PPG Industries - CFO*

Well, I think the penetration rate can go higher in the US and will go higher around the rest the world, and I think a couple things will drive that. One, consumer demand outside the US for quality products is going up and we are seeing that in markets like Brazil. We have a pretty good penetration rate and it's growing.

In other markets like China and Asia, our penetration rate is in the 1% or lower range. So we have lots of opportunities there.

The problem is you have to develop some awareness of the product. This is a new product, these are lenses that darkened when exposed to UV light and consumers are not used to that there and it is an upcharge, so it does cost more.

In the US, it took several years to build that awareness and a pretty significant advertising spend. But when you do that in the US, one ad can get to 300 million people.

It's a little tougher in Europe and certainly tougher in Asia where you have more fragmented countries, different languages, different distribution channels. But I think you will see our penetration rate, one, move up somewhat in the US and I'm not sure what the peak is, but it's higher than what it is today.

And certainly we will see movements in the developing parts of the world and hopefully some improvement in Europe as well as we continue to expand our presence there. But that's a very good business for us on a long-term basis.

It seems to grow consistently, and I think you would see growth even if the penetration rate stayed where it is and we have the driver of increased penetration rates that can drive the growth rate even higher.

Kevin McCarthy - *BAS-ML - Analyst*

I have a couple questions for you on portfolio composition. You mentioned that coatings and optical are approaching 85% of your mix, so quite an ongoing portfolio transformation there.

Prior to the credit crisis, you divested some auto glass businesses, you're still in fiberglass and flat glass today. Can you talk about the strategy there over the next several years? That's one piece of it. And then second, just your thoughts on what you're seeing in the private market in terms of potential acquisition opportunities to add further on the coatings side in markets like Asia and elsewhere.

Bob Dellinger - *PPG Industries - CFO*

Okay, let's start with -- so parts of our portfolio that are somewhat more challenged are flat glass, so this is glass for office buildings, residential windows, etc. Our big focus there is commercial buildings and also solar cells.

Solar cells tend to have multiple layers of glass, both the top sheet and then glass embedded to refract the light around to generate more electricity. We keep hoping for solar cells to take off.

That's been pretty slow and generally the economics on solar cells don't work unless there's significant government subsidies. So flat glass has been a challenging business.

There is a fair amount of capacity given the weak construction markets and obviously low housing starts. That is a somewhat challenged business. We've taken a lot of cost out of there and I would say it's fair to think about that as close to a breakeven business and that will move around quarter by quarter.

But I think we have stopped the bleeding there and would be open to a possible strategic alternative like we have done with auto glass where we sold 60% of the business. But we're not in a rush to do it and we are not going to accept something that doesn't make sense for our shareholders, but we'd be open to a different strategic structure.

Fiberglass, a little different dynamics. Fiberglass was very challenged through the recession in late '08 and into '09.

That business has rebounded nicely, principally driven by increased global demand. So as automotive production goes up, automotive uses lots of fiberglass.

It's used as a reinforcement in plastic parts, roof liners, insulation, a whole variety of applications. Wind turbine blades are a big application for fiberglass but that's also somewhat of a challenged market that is principally driven by government subsidies.

So fiberglass is improving because of demand and we're also seeing a tick-up in price and we will see another tick-up in price in 2011. But I think we would be open to some alternative strategic arrangement longer term in both of those businesses. And I think over the last 10 years, you've seen us make a number of divestitures of businesses that didn't fit our core portfolio and those may be possible as we go forward.

Kevin McCarthy - *BAS-ML - Analyst*

So on the acquisition side, Bob?

Bob Dellinger - *PPG Industries - CFO*

Acquisition side, so we are sitting on significant cash reserves. So at the end of the third quarter, close to $2 billion of cash on hand; we will likely invest $250 million into our pension plan either late December or early January.

That leaves $1.7 billion plus whatever cash production occurs in the fourth quarter. And we are certainly open to aggressively looking at acquisitions. Principally we look for bolt-on acquisitions.

These are $20 million to $250 million. They're things that fit in our existing business. So we're in packaged coatings worldwide.

We recently bought a packaged coatings company that served a unique application. These are shaving cans, they are called -- what are they called? Monoblock. So we pick up some new customers, some new technology, but we put it right into the existing businesses.

We are now monitoring the pipeline to a much greater degree and we would expect to do more acquisitions as we move forward. There are lots of small and mid-size coating companies out there, but we would look to bolt them onto existing businesses.

We are looking to get into new businesses or deviate from our coatings and specialty materials vision. We also look at emerging regions, so geographies, so China.

Coatings companies in China, very interesting; Eastern Europe, interesting; Latin America, interesting. It's probably less likely you'd see us do anything in the US. It's a more consolidated market and it's not as exciting a growth story.

Unidentified Audience Member

With regard to some of those potential M&A opportunities in the pipeline, have you seen the expectations of possible sellers get more realistic in your view or sort of still good bid-ask spread on these companies?

Bob Dellinger - *PPG Industries - CFO*

Well, I think -- so if there's 50 or 100 targets out there, every one of them is a little different story. I would tell you the one dynamic that is maybe a little unique is that for a larger coatings company in China, they have the ability at least to think about going public on the Shanghai market.

The multiples now there are what? They are 20 or even 22 times earnings, so that sometimes creates a tough floor.

Now I don't know how realistic it is that they can tap that market if they're looking for $200 million or $300 million, but they at least think it's realistic. And so we have to have that conversation.

Smaller coatings companies, $30 million, $50 million, $100 million in China obviously don't have that opportunity. They're too small to participate in that.

Other parts of the world, you tend to get lots of dynamics relative to family ownership, aging of the population owners looking to exit. So I think that's unique. But I think expectations are reasonable with the exception of China and those larger coatings companies, and therefore we have a position to have that negotiation between a buyer and a seller.

Kevin McCarthy - *BAS-ML - Analyst*

If I could just squeeze in one more quick one for either Bob or Vince. Can you just address the outlook for caustic soda pricing wrapping up the quarter and looking into the first part of 2011?

Bob Dellinger - *PPG Industries - CFO*

There was -- and Vince is the expert on this, but I'll take a shot at it. There was in October of this year, there was a $50 price increase announced. I think traction on that is pretty good but you have to wait for the contracts to expire. So if you have a three-month contract, you've got to wait months before the $50 goes in.

So I think we expect that to stick or largely stick on. And I think at least as I look into next year, things feel pretty stable.

There's no fundamental change in housing that is going to drive PVC production and therefore result in lots of chlorine production which would potentially drive caustic prices down. And this market has behaved much better during this last recession.

It dipped hard and quick but recovered very quickly versus prior recessions where it's sometimes been depressed for a number of quarters. It's an interesting business.

It can be volatile on the income line but it's a very steady cash producer for us. And as a CFO, it's a pretty attractive business when you get something that throws off multihundred millions of cash each and every year in good times and bad. So, I've come to like this business.

Kevin McCarthy - *BAS-ML - Analyst*

Very good, we'll leave it at that. Think you very much for being here today and the presentation.

Bob Dellinger - *PPG Industries - CFO*

Great, thank you.
