QUESTION AND ANSWER – 3Q 2009 Analyst Conference Call
October 15, 2009

Sergey Vasnetsov - Barclays Capital - Analyst
Good morning. I think your results have shown what strong incremental margins you can bring once the volume comes back. And it sounds from commentaries that the fourth quarter could be a combination of seasonal weakness and some incremental recovery. Would you think that those two factors would roughly offset each other?

Chuck Bunch - PPG Industries - Chairman, CEO
Yes. I think, Sergey, what you're seeing from us is that we're going to have seasonal weakness in many of the construction-related businesses. These would be our Architectural Coatings businesses in Europe or in North America and also some seasonal weakness in our Chlor-Alkali business. But we feel that with the cost reduction actions that we've taken and the momentum we have in some of the industrial businesses where you see in markets like North America or China in particular where auto builds are continuing to increase, I think we are going to have somewhat of an offset to the seasonal weakness that we traditionally experience in the fourth quarter.

Sergey Vasnetsov - Barclays Capital - Analyst
Okay. On the acquisition front even if you get more comfortable in your overall debt structure, as you think about 2010 would you expect minor opportunities or reasonable size opportunities for you?

Chuck Bunch - PPG Industries - Chairman, CEO
We are beginning to look now, Sergey. Obviously this year we've been focused on our restructuring actions and making sure the Company was well positioned. We're very pleased with our cash generation capabilities here over the last couple of quarters. We have a good cash balance now and we will begin to look for acquisition opportunities in coatings in particular and we hope that in the coming quarters that some of these may develop into legitimate opportunities for us.

Sergey Vasnetsov - Barclays Capital - Analyst
Thank you.

Frank Mitsch - BB&T Capital Markets - Analyst
Good morning, gentlemen, and happy retirement, Bill. Bill, I know that you like watching the NFL, so I'm hoping you're going to be able to enjoy it this season. But based on what I've seen in a breakdown of the Steelers tapes I'm not optimistic for you.

Bill Hernandez - PPG Industries - SVP Finance, CFO
Frank, I take comfort from the fact that a very wise man told me to live in the present and we presently are the Super Bowl champions.

Frank Mitsch - BB&T Capital Markets - Analyst
Touché, Touché. On page 16 you showed the trend on the Chlor-Alkali side having bottomed in the July/August timeframe and moving up in the September timeframe. We're halfway done with October. Would you anticipate that that trend coming off the bottom is where you would see the ECU such that the fourth-quarter average ECU might be above the third-quarter average ECU?

Chuck Bunch - PPG Industries - Chairman, CEO
We think the ECU will be modestly improved in the fourth quarter. The one factor we'll have in this business unit is the seasonal volume weakness that we traditionally get typically towards

the end of the fourth quarter, but we do have some positives working for the industry in general because of the weaker dollar, the strength in the Asian markets where I think we're going to see less exports out of Asia, more use of their domestic Chlor-Alkali capacity in the region. So I think that it will set the stage for improvement as we go through the fourth quarter and into 2010, but we still expect some seasonal trends here, especially on the volume side.

Frank Mitsch - BB&T Capital Markets - Analyst
So the volume is coming off with pricing moving up. Chuck, staying with Asia, obviously you talked about the volumes being a positive in that part of the world. What percent of sales was Asia in total for the third quarter and can you give us some indication at least to the current trends in China post the national holidays that they had there?

Chuck Bunch - PPG Industries - Chairman, CEO
The percent of sales now for our businesses in Asia is over 15%, it's around 18%. So a very positive trend here. And we had some strength here at the end of the third quarter especially in China because of the national holiday at the beginning of October, but we have been monitoring volumes as the plants came back to work in the second week of October and activity levels are very good. So we're picking up here after the national holiday celebration at similar levels, a very positive indicator for us.

Frank Mitsch - BB&T Capital Markets - Analyst
Terrific. Thank you and welcome aboard, Bob.

Bob Dellinger - PPG Industries - SVP Finance, CFO Designate
Thank you.

David Begleiter - Deutsche Bank - Analyst
Good morning. Chuck, can you comment on what you're seeing in raw materials, whether you're taking any higher TiO2 prices and what you're seeing on your oil-based raw materials?

Chuck Bunch - PPG Industries - Chairman, CEO
I would say there are trends probably in both areas. TiO2, there are discussions going on with the TiO2 producers now. They are attempting to get price increases and the discussions are ongoing. I would say that certainly the trend is not down and we will see in the coming quarters if there is price increases on the TiO2 side, but certainly the suppliers are attempting to pass those costs through in a modest way to their customers.

On the oil-based side, we have obviously some strength in oil prices combined with weakness in the dollar. I would say that right now we are experiencing conversations, LETS call it, where suppliers are trying to pass some of these costs on.

You have a countervailing trend though with the weakness in natural gas prices here and a lot of the raw materials for our coatings businesses are based on natural gas or ethylene and those trends are favorable so we have a mix there and I would say that if there is any price tendency it is modestly higher, but I would say at this point very muted.

David Begleiter - Deutsche Bank - Analyst
And Chuck, what's your ability to pass through any high raw materials through your selling prices?

Chuck Bunch - PPG Industries - Chairman, CEO
We've seen in prior years and prior quarters that we have some ability to pass along higher raw material prices, but usually with a lag effect of one or two or more quarters. So right now I would say we're monitoring and in discussions with both suppliers and customers making sure that the trends that we see don't accelerate. But typically the industry and many of our end use markets have been able to pass on costs, but usually with a lag effect.

David Begleiter - Deutsche Bank - Analyst
Thank you.

Amy Zhang - Goldman Sachs - Analyst
Thank you. I have two questions. The first one is regarding glass and I'm wondering how should we expect an operating profit of this segment to progress in the fourth quarter and also ahead in 2010 given it looks like the commercial construction market may show further erosion. And also on the other hand you guys may have more aggressive cost-cutting efforts there.

Chuck Bunch - PPG Industries - Chairman, CEO
We continue to work hard in this business segment; we are disappointed that we continue to report an operating loss here. We have some trends that are moving against each other. We have some positive trends especially in our fiberglass business where the electronics market in Asia in particular is strengthening. Also in the composite side of the business which supports transportation and a number of other plastic composites end use MARKETS THAT appears to be strengthening. So those are good trends for us positively affecting our fiberglass business.

We do, however, see a pause in the wind energy market where we are a large supplier for wind blades to these large turbines. That's pausing and we do have this negative trend in commercial construction that has affected our flat glass or performance glazings business. So we're still fighting some -- I would say some difficult market conditions in some of our end-use markets. So we are still working hard to take some more costs out, but we're trying to be patient here with these businesses. But we are clearly disappointed that we again are reporting a loss here in the third quarter.

Amy Zhang - Goldman Sachs - Analyst
Thank you. My second question is related to the US paint market. I'm wondering how did the dynamic between the two channels, the stores in those national accounts played out. Because if I'm right I heard you say the stores sounded weaker, national accounts declined modestly, but I recall last quarter you said national accounts were up mid single-digit level. So I'm wondering what the trends look like on a sequential basis across the two channels?

Chuck Bunch - PPG Industries - Chairman, CEO
Typically the volumes do start to weaken, especially later in the third quarter in the Architectural Coatings business here in North America, but it was a very modest weakness in our DIY Home Center channels. The volumes, we thought, were relatively stable.

We do see, however, continued weakness on our company store channel, and there we are seeing continued volume losses. We have been talking about a modest improvement in new home construction, but we are still at very low levels. And we did get impacted by the weakening of the commercial construction markets here in North America. So the third-quarter volume trends were still negative for us.

We have closed a number of stores. We have reduced our costs and infrastructure to support the business. We feel that we are in a position now with a stable store count, and we will be able to profitably take advantage of volume improvement. And I think you are going to see that in new home construction, in the biggest piece of the company-owned stores business, which is the residential repaint market.

But right now, we are fighting some negative trends in the commercial construction and we are going to have to look, I think, to 2010 to see some improvement there from a volume basis.

Amy Zhang - Goldman Sachs - Analyst
Very helpful.

Anthony Pedinari - Citigroup - Analyst
This is Anthony Pedinari standing in for P.J. Just as a follow-up to Amy's question on the paint store count, can you quantify how many stores you started out with in the beginning of the year and then maybe how much you will end up with at the end of the year?

Chuck Bunch - PPG Industries - Chairman, CEO
Yes, we have now a little over 400 stores. If you look at our store count last year, we were approaching 450. So we are down from, let's say, last year's levels to today about 10% in store count, and about half of that has taken place here in 2009.

Anthony Pedinari - Citigroup - Analyst
Okay. In the DIY channel, one of your major competitors has reduced select price points. And granted, we are headed into a slower part of the season. Are you seeing any price pressure in the DIY channel?

Chuck Bunch - PPG Industries - Chairman, CEO
In the DIY channel -- I'm not sure exactly what you're referring to, but obviously in our channel we go to market through primarily Lowe's. And I think that from everything that we see in the market place Lowe's is holding their own in the DIY channel and they have been, I think, successful in continuing to attract consumers into their stores as we've discussed before.

Repainting is a relatively low cost home improvement project and I think it's held up better in the home improvement centers as opposed to some of the larger ticket items such as bathroom or kitchen remodeling. So I think the DIY segment and our home center customers have done on a relative basis better through this recession.

Anthony Pedinari - Citigroup - Analyst
Okay, thank you.

Kevin McCarthy - Bank of America Merrill Lynch - Analyst
Good morning. Chuck, as you look ahead to 2010 I was wondering if you could comment on what we should expect in terms of industry volume growth in both US and European Architectural Coatings. And maybe you could provide some color as to what you're seeing in Europe these days in terms of trends and different country trends?

Chuck Bunch - PPG Industries - Chairman, CEO
We think that volume trends, if we start in Europe I would say that volume trends are not positive. So I would say in 2010 we are not preparing for volume growth. I would say that we're talking about now zero volume growth to maybe negative low single digits. So that's the kind of volume growth we have.

Obviously some markets for us are stronger than others, but we are not forecasting volume growth in Europe for next year. In North America we think there will be modest improvement in volumes again probably on the positive side, lower single-digits because I think we'll be fighting a little bit of the head wind in commercial construction, but we think that residential, both new home and the repaint markets, will be somewhat stronger.

Arun Sharma - UBS - Analyst
This is Arun filling in for Don. We just had a couple of questions, I guess first off was the corporate line. You guys reported $15 million and I know that you had an $8 million currency gain last quarter. So is that what's going on here or what's the real run rate for corporate going forward?

Vince Morales - PPG Industries - VP of IR
Similar to last quarter the currency gains for intercompany accounts payable and receivable benefited us; it was a few million dollars versus last quarter. And again, that's typically a sequential event because we revalue those each quarter. With the dollar weakening that aided us by just a few million dollars. So I still think we're in a $15 million to $20 million run rate per quarter absent those currency gains.

Arun Sharma - UBS - Analyst
Okay. I thought last quarter that the run rate was supposed to be around $30 million?

Vince Morales - PPG Industries - VP of IR
No, first quarter we had currency go against us which pushed the first quarter above -- which pushed the first quarter up.

Arun Sharma - UBS - Analyst
Okay. All right. And then in Chlor-Alkali, what's your read on the price increases that are out there? We've been reading this pickup in operating rates over the summer has put a little strain on realizing some of those increases, do you see that or are they proceeding?

Chuck Bunch - PPG Industries - Chairman, CEO
We think that the price increases that we have been successful in some of the price increases throughout the third quarter. And I think what you'll see through the coming quarters is that the prices will continue to firm in Chlor-Alkali again with what we think will be some positive trends some of these macroeconomic in terms of the relative strength of economies around the world and the US dollar. Those will be positive trends and we haven't seen, as we've been talking about on the Architectural Coatings side, we haven't seen the volume in construction take off yet in a very strong direction and that will more than likely keep some of the PVC production muted.

Arun Sharma - UBS - Analyst
Just real quickly, is there a chance to increase auto production -- when do you think that would help you guys get positive in glass?

Chuck Bunch - PPG Industries - Chairman, CEO
Today in our company's operations we are exposed to the automotive OEM business in coatings and we are positive we made money in the third quarter in our automotive OEM coatings businesses around the world. So that has been positive, it's benefiting obviously from some of the restructuring actions.

The automotive glass side of the ledger, that business we divested a 60% interest in the third quarter of last year and they are I think also benefiting from the restructuring actions that were taken after the divestiture. So I think they are improving their positioning in the automotive glass market and benefiting here with the return of production levels in North America to let's say improved levels.

Arun Sharma - UBS - Analyst
But do you think you can return to profitability in the fourth quarter?

Chuck Bunch - PPG Industries - Chairman, CEO
It is profitable. The business, the auto glass business, is profitable. It is not included, however, in the glass operating segment. The glass operating segment does not include our 40% interest in the auto glass and services business. That operating segment only includes the performance of our two remaining glass businesses, fiberglass and performance glazing.

Arun Sharma - UBS - Analyst
Which is down because of the construction?

Chuck Bunch - PPG Industries - Chairman, CEO
In performance glazings,yes. Fiberglass, still coming back from a very weak market tied to what we talked about the transportation market, the wind market being stalled out here for the moment. But we see positive trends actually in the fiberglass business and we think that will be helping us in the coming quarters.

John Roberts - Buckingham Research - Analyst
If you look at the results sequentially instead of year-over-year, how much of the 3.5% sales gain was currency and how much of the $0.06 earnings sequential improvement was currency as well?

Vince Morales - PPG Industries - VP of IR
John, this is Vince again. Currency moved up just slightly. It's too hard to look at some of our businesses sequentially because of the seasonal nature of them. You could do it I guess by comparing the sales dollars and our average margin for each segment, but there's too much seasonality in some of the businesses to try to estimate that.

John Roberts - Buckingham Research - Analyst
We had a pretty sequential significant move in the euro sequentially and again you had a pretty good gain in this quarter because of that movement in the earnings.

Vince Morales - PPG Industries - VP of IR
Yes, from memory our currency impacts last quarter were close to a dime negative, this quarter they are close to $0.04 let's say.

John Roberts - Buckingham Research - Analyst
Okay, thank you.

Saul Ludwig - Key Banc - Analyst
Good morning, guys. Bill, you've got no problem with your guys playing the Browns this weekend.

Bill Hernandez - PPG Industries - SVP Finance, CFO
Well, thank you for that, Saul.

Saul Ludwig - Key Banc - Analyst
A couple of questions. With regard to the hedging on natural gas, where do you now sit for the fourth quarter and maybe the first half of next year? And then a second unrelated question, you talk about Asia being about 18% of the revenues, what was the change this year third quarter versus third quarter a year ago in Asia revenues and in Asia operating income?

Chuck Bunch - PPG Industries - Chairman, CEO
First, the hedging position in the fourth quarter will be similar to what we have reported here in the third quarter. So we're hedged close to 50% at around $8 level so obviously we're not taking full advantage of the lower seasonal prices that we're seeing in the $4 to $5 range in natural gas.

But it will be something similar in the fourth quarter and actually our hedging is going to decline in 2010 to more our traditional one-third, one-third hedged. And this year we've been affected by some slightly higher hedging volumes and also lower activity levels.

So I think next year you're going to see lower hedge percentages, but probably a similar delta if prices stay where they are. Now prices have started to move up in natural gas here during September, but then we've seen over the last few days that some of that increase has come off. There's been a lot of activity around hedging practices. Some of these exchange traded funds that were investing in natural gas futures so it is a little bit of a jump ball I think now in terms of what the direction is going to be in natural gas.

We didn't have any hurricanes this season. We have some colder weather, good storage levels however. And I think there are some external factors that are now affecting hedging going forward. So I would tell you that we're still going to be hedged probably at a third level less than this, less than what you've seen this year or what you'll still see in the fourth quarter.

Saul Ludwig - Key Banc - Analyst
Are you hedged for the first quarter already at $8?

Chuck Bunch - PPG Industries - Chairman, CEO
We are hedged for the first quarter and the hedges -- I would say $8 is more of an average, so that we will have hedging at these kinds of levels for the first quarter, yes.

Vince Morales - PPG Industries - VP of IR
So on Asia -- let me answer your question. Our sales are up in local currencies 4% to 5% year-over-year. Currency a slight headwind. Earnings, we're seeing the same time of margin gains in Asia as we are globally relative to earnings.

Saul Ludwig - Key Banc - Analyst
Earnings are up more than 4% to 5%?

Vince Morales - PPG Industries - VP of IR
That's correct.

Saul Ludwig - Key Banc - Analyst
Great, great. Okay, great. Those were my two questions. Thank you.

Dmitry Silversteyn - Longbow Research - Analyst
Good morning, gentlemen. Congratulations on a very nice quarter -- all things considered. A couple of questions. Number one, if you look at the industrial automotive business which

improved quite markedly at least year-over-year negative delta that you've been experiencing for the first half of the year, I understand that automotive business was a big part of it. If you exclude automotive what did the rest of the industrial business look like and if you can give us a little bit more detail on what your automotive OEM business looked like in the quarter?

Chuck Bunch - PPG Industries - Chairman, CEO
There are three global business units in what we report as Industrial Coatings segment. The largest is automotive OEM coatings and the other two are Industrial Coatings or maybe more properly General Industrial Coatings and packaging coatings. Both of those are global businesses with similar trends that we've talked about. They had negative volumes in those business units, but we have been restructuring heavily especially in the Industrial Coatings business unit.

So we had favorable earnings trends in those businesses as well without any offsetting volume trends. The one thing that you saw in automotive is that we do have strength in Asia and in China in particular and we had a positive sequential quarter in North America with volumes in automotive OEM, but we still have some weakness in the end-use markets for our general industrial customers. These would be the coil and extrusion markets again partially tied to commercial construction. We've seen some (multiple speakers).

Dmitry, are you on?

Dmitry Silversteyn - Longbow Research - Analyst
Yes.

Chuck Bunch - PPG Industries - Chairman, CEO
We've seen some weakness in the appliance end use market. So we were able to offset those negative trends in general industrial and report higher sequential and higher year-over-year earnings in those businesses despite weak volumes.

Dmitry Silversteyn - Longbow Research - Analyst
Okay. So the low 30s volume declines that you saw on a year-over-year basis in industrials, in general industrial, that's still going on. So the improvement it sounds like came from better automotive business with packaging holding its own being down low to mid single digits, would that be a correct --?

Chuck Bunch - PPG Industries - Chairman, CEO
I would say that's correct. And we have focused heavily on reducing cost in our automotive OEM and general industrial businesses, so that's where we've really been working hard and that's where we've seen some of the larger benefits from our restructuring programs.

Dmitry Silversteyn - Longbow Research - Analyst
Sure. Okay, and then the second question on margins -- we saw a significant margin improvement I think setting at least a couple of years record on the optical and specialty films business or Specialty Materials business. On the other hand, we saw a pretty sharp decline into single digits on the profitability of the commodity business.

So if you look at the optical and specialty, was the margin recovery there a result of restructuring or raw materials or better mix or silicas coming back and going from perhaps losing some money to making money? And then on the on the commodity side, the decline in profitability, how much of that was just pricing being down significantly more sequentially as well as year-over-year? And how much of it was perhaps natural gas or other input costs changing versus what they were in the first half of the year when you were able to maintain margins in double digits?

Chuck Bunch - PPG Industries - Chairman, CEO
I'll answer the first question. The Optical & Specialty Materials business, we had -- if you look at the two segments, the optical segment, we did have negative volumes there, modest low single digit volume declines in the optical business. Although we still feel that in transitions our photo chromic business that represents the majority of our optical business unit, that they were still performing better than the industry as a whole.

So volume trends were still negative there but only slightly, and we have worked hard their at cost reduction, especially here over the last quarter or two. We had a very strong first quarter in that business with some product launches in Europe, the volume trends haven't been quite as strong here over the last two quarters. So we have been focusing on cost reduction opportunities there as well.

And in the silicas business unit, as you referred to, we did see some nice strengthening and there I would say the biggest pickup was in some end use market tied to the batteries and tire markets and we had also restructuring actions in that business plus they are a natural gas user. So we had both a raw material benefit from natural gas, we had lower cost from our restructuring and some end market strength.

So if you looked at the two components, even though silicas is the smaller business within that reporting segment, silica has actually had more improvement than we saw even in the optical business. And on the Chlor-Alkali side, I think that was your other question. What was the question again?

Dmitry Silversteyn - Longbow Research - Analyst
I was just wondering was the decline into single digits and operating profits, was that just a question of pricing finally catching up or was there some negative comps weather it was natural gas or other input cost or transportation that caused the margin to decline into single digits?

Chuck Bunch - PPG Industries - Chairman, CEO
No, pricing is the biggest driver of the declining earnings, it's actually been helped somewhat by lower natural gas and some of our cost efforts there as well. But the negative trend in that business has been pricing.

Dmitry Silversteyn - Longbow Research - Analyst
Got you, okay. Thank you very much.

Michael Judd - Greenwich Consultants - Analyst
Good morning. Thanks for taking my question. In terms of the pattern of sales into the automotive industry, I guess what I'm hearing is that obviously July was relatively weak, they had a very good August and September has been pretty good. In terms of your comments about sequentially production being flattish, that must imply that you're anticipating a weaker type of December. And just in terms of a seasonal understanding of that business, do you anticipate that December and January will be weak? And when would you expect to begin to see a pickup in production potentially in the first quarter?

Chuck Bunch - PPG Industries - Chairman, CEO
Well, I would say here if we're talking about North America and today you have different dynamics in each region of the world and you have, as we've been talking about, a lot of strength in China as an example. But here in North America we did have a strong August and September, not by historical standards, but certainly by what we've seen earlier this year. And that trend is continuing in October and November as the North American car makers are rebuilding their inventories.

I think that at this point December is historically a weaker month and the shutdowns can come close to Christmas or before. And last year actually the fourth quarter in automotive production stayed strong through November and early December and then really dropped off and then they stayed down well into the first quarter and actually they didn't really start having production at a significant level until the end of July.

So I would say that we have good visibility in October and November, we think they'll be rebuilding their inventories and I think then they'll probably make decisions in December depending on the demand levels or sales levels that we see. Sales levels dropped off in September after the expiration of cash for clunkers and I think the automakers are going to wait and see how the trends develop before they say when they're going to shut down production in December or when they will start back in January.

So it's still I think a little bit of a wait and see, but obviously anything that they're making and we think they will be back making cars in January, that will be significantly higher than what we saw in the first two quarters of 2009 where production levels were at levels that were more like 5 million to 6 million auto builds in North America, that was the rate in the first two quarters of this year which I don't think is a sustainable level. And so we'll certainly be bouncing nicely off those levels in 2010 in North America.

Michael Judd - Greenwich Consultants - Analyst
Thanks.

Kevin McCarthy - Bank of America Merrill Lynch - Analyst
A quick follow-up on pension. Do you have a preliminary 2010 outlook for pension expense and potential cash contributions next year?

Bill Hernandez - PPG Industries - SVP Finance, CFO
The cash contribution -- this is Bill -- is going to be roughly what it was in 2009, we don't anticipate much of a change there on a worldwide basis. As you know, some of our pension contributions performance will be dictated really at the end of the year as the final data is reset. The one thing we have done this year, as you're aware of, we did put some shares in relative to cash and we may do that as well next year rather than putting in cash.

Vince Morales - PPG Industries - VP of IR
Kevin, we had $200 million in cash, $100 million in shares, just as a clarification.

Kevin McCarthy - Bank of America Merrill Lynch - Analyst
What was the rationale for the share component of that contribution?

Bill Hernandez - PPG Industries - SVP Finance, CFO
Several reasons. One, by putting in shares we have extremely high dividend yield and we put it into shares we're at a pretty good value and basically what we did for the first contribution was

offset it with an equity forward so that basically the interest-rate we were paying on the equity forward was less than what the dividend yield was. It was actually cash positive doing that and we got the full adduction for the pension.

Now we did it a little bit here, again, in the third quarter and that's why you see a little bit higher share count actually in the third quarter because we actually are exercising and putting that equity forward here beginning in October.

Kevin McCarthy - Bank of America Merrill Lynch - Analyst
Second piece, on the income statement side, if we assume relatively stable capital markets over the next couple months, do you have an idea of what the expense might be for 2010?

Vince Morales - PPG Industries - VP of IR
I don't think we're ready to get into that detail, we still have to go through our actuarial efforts and that's something we can offer more information on as we get closer to the year-end.

Kevin McCarthy - Bank of America Merrill Lynch - Analyst
Fair enough. Thank you.

Operator
We've reached the limit for Q&A today. I would now like to turn the call over to Mr. Chuck Bunch for any closing remarks.

Chuck Bunch - PPG Industries - Chairman, CEO
I want to thank all of you for your attention. We've appreciated the dialogue and the Q&A and all of your support and we're very pleased with our results. And we look forward to talking to you in the coming weeks. Thank you.