



PPG Industries, Inc., Third Quarter 2006 Financial Results

William H. Hernandez, Senior Vice President, Finance, October 19, 2006, Recorded Comments

In the next few minutes, I'll review our excellent third quarter 2006 performance. I'll also comment on many macro and company-specific trends underlying our performance. Let me first provide a quick recap of some significant items which drove our strong third quarter results:

- PPG delivered an all-time sales record for any third quarter in company history. Our sales, which totaled \$2.8 billion dollars, were our second-highest quarterly total ever, despite a traditionally slower quarter seasonally. Individual third quarter sales records were achieved in 10 of our 15 business units, including all six coatings businesses and, of course, our optical products business.
- While price and volume growth continue to be important factors in our sales increases, sales from business acquisitions was the principal catalyst for our record performance. Currency, primarily the Euro, also contributed to the sales gains.
- Our third quarter earnings per share are \$0.54, which includes previously announced charges totaling \$0.72 for legacy environmental costs and a legal settlement charge. I will discuss each of these charges shortly. Last year's earnings per share were \$0.92, which also included several unusual charges. Our third quarter adjusted earnings per share for this year were \$1.28 versus an adjusted figure of \$1.15 for the comparable period last year.

We are very proud of this quarter's earnings improvement in the face of a slowing U.S. economy and several slowing economic sectors, as it is a testament to the changes we have made in our business portfolio which now provide us with broader end-market and geographic breadth. We believe this, coupled with our ever-present cost diligence, will allow us to continue to produce excellent financial results in today's changing global economy.

- Also in the quarter, the price of our primary energy cost, natural gas, fell below prior year levels which were elevated in the wake of two major hurricanes, Katrina and Rita, that hit the U.S. Gulf Coast. As the quarter closed, we were pleased that the current trend in natural gas pricing is more closely supported by market supply and demand and all-time high inventory levels and not speculation. This trend will eventually benefit a large portion of the U.S. industrial base, which of course we supply in many different ways.
- Overall coatings raw material costs increased slightly, reflecting a combination of what had been stubbornly high oil prices and supply and demand imbalances in a few key raw materials. As we exited the quarter, we did see oil prices beginning to deflate. I will discuss the margins in each of our businesses later, but we are pleased with our margin trends in coatings, chemicals and also glass.

- As expected, our continued cost focus once again produced manufacturing improvements totaling about \$13 million, bringing our year-to-date total to nearly \$75 million. This figure, through nine months, is only slightly below the \$80 million we typically average in a full year.
- Our heritage of strong operating cash flow continued, and year-to-date we have generated about \$700 million in cash from operations. And to no surprise to those of you who know us well, we are using our consistent cash flow in a balanced manner to reward shareholders by both investing in business growth and through dividends and share buybacks.

Now I will discuss our excellent results in more detail.

Business Segment Sales						
	3rd Quarter			Year-to-Date		
	2006	2005	% Change	2006	2005	% Change
Sales						
Coatings	\$ 1,605	\$ 1,396	15%	\$ 4,624	\$ 4,178	11%
Chemicals	633	597	6%	1,900	1,829	4%
Glass	564	554	2%	1,740	1,689	3%
Total PPG	\$ 2,802	\$ 2,547	10%	\$ 8,264	\$ 7,696	7%

Business Segment Sales

First, reviewing slide #3, which recaps our unprecedented third quarter business segment sales performance:

PPG once again delivered an excellent quarter, achieving an all-time third quarter sales record of \$2.8 billion. For the quarter, year-over-year sales increased by 10 percent. Our third quarter sales are up over 30 percent in the past five years, and this marks the fourth consecutive year we achieved a third quarter sales record.

Record third quarter sales were achieved in all six coatings businesses, with total coatings sales up significantly at 15 percent year-over-year. Our chemical segment also delivered record third quarter sales, with an increase of 6 percent over our prior third quarter record posted last year. In glass we recognized record third quarter sales in our performance glazings architectural glass business, where we are supplying a very robust commercial construction market.

Geographically, year-over-year North American volumes were down, but less than 1 percent, reflecting slower growth in the overall U.S. economy. However volume growth in all our other major regions – Europe, Asia and Latin America – was robust.

Finally, acquisitions we completed in coatings and optical during the past 12 months have generated sales this quarter of about \$135 million, resulting in a 5 percent sales increase. We currently expect at least \$150 million in sales growth from these acquisitions in the fourth quarter. We estimate these acquisitions will add between \$700 and \$800 million to our 2007 sales.

As we have communicated several times, due to the impact of acquisition and integration costs, as anticipated the third quarter acquisition earnings impact was negligible but slightly positive. We are focused on integrating these acquisitions and expect them to be nicely accretive to our earnings in 2007.

Third Quarter Comparisons

	2006		2005	
	Million	EPS	Million	EPS
Net Income As Reported	\$ 90	\$ 0.54	\$ 157	\$ 0.92
Net Income Includes the Following Charges (Earnings):				
Asbestos Settlement - Net	\$ 4	\$ 0.02	\$ 2	\$ 0.02
Legacy Environmental Charge	106	0.64		
Refrain Antitrust Legal Settlement	14	0.08		
Other Legal Settlements	7	0.04	37	0.22
Insurance Recoveries	(7)	(0.04)	(12)	(0.07)
Direct Hurricane Costs			11	0.06
Adjusted Net Income	<u>\$ 214</u>	<u>\$ 1.28</u>	<u>\$ 195</u>	<u>\$ 1.15</u>

Adjusted Net Income is included in this presentation, together with the most directly comparable GAAP financial measure, because management uses this information in evaluating the results of the continuing operations of the Company and believes this information provides useful insight to investors.

Third Quarter Comparisons

Now, reviewing our earnings in summary, you can see on slide #4 titled "Third Quarter Comparisons" we reported EPS of \$0.54 in the quarter that included charges of \$0.02 a share related to our proposed asbestos settlement and, as previously announced, \$0.64 a share for legacy environmental charges and \$0.08 a share for a federal antitrust legal settlement. Also included are charges of \$0.04 a share for other legal settlements and a gain of \$0.04 a share stemming from a hurricane-related insurance recovery.

Excluding these items, our adjusted earnings per share were \$1.28, handily beating last year's adjusted figure. Once again, we are very proud of this earnings growth as it reflects our broad customer and geographic reach, and our ability to grow our earnings in spite of an overall slowing U.S. economy and in the wake of lower U.S. housing starts and automotive builds.

Please refer to slide #4 of this presentation on the Investor Center section of our Web site for a reconciliation of these adjusted numbers to the comparable GAAP financial measures.

With regard to the previously announced environmental and legal charges, we believe these charges will result in meaningful progress toward resolving these longstanding legacy issues, which have been detailed in our financial filings for many years. Also, and just as important, we are very pleased that our strong balance sheet and cash flow provides the financial flexibility to resolve these issues while also allowing for continued focus on earnings growth opportunities. Since 2001, we have made substantial progress on resolving all the key risks and uncertainties outlined in our commitment and contingent liabilities section of our Form 10-K.

Our third quarter tax rate was 18.8 percent, which includes the tax benefit of the large charges I just mentioned. We expect our ongoing tax rate for the remainder of 2006 to be between 31.0 percent and 32.0 percent, and expect our 2007 tax rate to be in the same range.

A year ago we reported EPS of \$0.92 in the quarter that included per share reductions of \$0.02 related to the asbestos settlement, \$0.22 for other legal settlements, and \$0.06 for direct costs associated with the U.S. hurricanes. Also included was an increase of \$0.07 per share for insurance recoveries. The tax rate then was 30.2 percent.

Let me comment, but just briefly, on our proposed asbestos settlement. As we've been reporting since mid-2002, our reported earnings include the charge or income resulting from adjusting the asbestos settlement liability to its current value. As with last quarter, I will avoid the redundancy of reciting the details of the asbestos settlement. For those not familiar with those details, please refer to page 17 of our second quarter 2006 Form 10-Q for more information.

	3rd Quarter		
	2006	2005	Change
Operating Earnings			
Coatings	\$ 185	\$ 210	\$ (25)
Chemicals	(30)	121	(151)
Glass	40	(36)	76
	<u>\$ 195</u> ⁽¹⁾	<u>\$ 295</u> ⁽²⁾	<u>\$ (100)</u>

(1) Includes charges of \$35 million for legal settlements.
Includes charges of \$173 million for legacy environmental costs.
Includes earnings of \$11 million for insurance recovery.

(2) Includes earnings of \$18 million for insurance recovery.
Includes charge of \$61 million for legal settlement.

Business Segment Earnings

Moving to the chart detailing our business segment earnings, our coatings operating earnings were \$185 million, which includes the previously discussed pretax charge of \$23 million relating to the proposed settlement of a federal class action legal case. Last year, our third quarter earnings were \$210 million, which included a gain of \$18 million pretax stemming from an insurance recovery.

Revenue growth, both price and volume, and continued cost management were all keys to this

performance. During the quarter we did see a further increase in coatings raw material costs of just about \$20 million.

In order for you to properly measure our operating margin progress, let me provide some details so that you may compare this year and last year on an apples-to-apples basis. We had about \$125 million this quarter in coatings acquisition-related sales, which, as we communicated previously, would have and did have a negligible impact on earnings. We also had the \$23 million legal charge which reduced this year's operating earnings. Excluding these current year items respectively from sales and operating earnings, and also adjusting down last year's third quarter coatings operating earnings by \$18 million for the insurance settlement, you are able to calculate our year-over-year margin improvement.

Given that the raw material cost environment remains stable but stubbornly elevated, we will continue to aggressively pursue all methods to recover our industry-leading margins to their historic levels, including additional increases in selling prices and further cost actions. We expect an even more pronounced margin improvement in the fourth quarter.

Our third quarter cost for natural gas used in our chemicals and glass businesses was about \$7 per MMBTU. This figure is comparable to what we paid in the second quarter of 2006 and below the \$8.50 we paid in the third quarter of 2005. As I mentioned, we are pleased that these costs have moderated.

In chemicals we reported an operating loss of \$30 million. This includes the pretax charge of \$173 million for the legacy environmental costs I mentioned earlier. We also recognized a gain of just over \$11 million from an insurance recovery associated with the losses sustained last year from Hurricane Rita. The impact of this gain was offset in the quarter by charges related to legal matters in other businesses.

With respect to our overall chemical business results, reflecting back on the last several quarters we communicated that we see a fairly stable chlor-alkali market in 2006. Excluding these charges, our chemical operating margins once again exceeded 20 percent and have remained consistent with our margins through the first half of the year.

Glass earnings improved substantially versus prior year levels. As a reminder, last year's operating earnings figure included a pretax \$61 million legal settlement charge.

Our earnings improvements this year were partially driven by our sales gains in performance glazings, by our ever-vigilant focus on costs, and by a strong Asian electronics market serviced by our fiber glass joint ventures in the region. Our continued strong sales performance in performance glazings, in the wake of a significant drop in U.S. housing starts, continues to provide ongoing evidence of our efforts to focus this business on serving the commercial construction market.

To summarize our overall financial performance, in today's changing global economy we continue to produce excellent financial results. Our business and customer portfolios, our technology, and our execution remain key aspects in our ability to continually deliver profitable growth. Additionally, our strong and consistent cash flow has allowed us to opportunistically complete acquisitions which will serve to further expand our growth platforms moving forward. This cash flow has also allowed us to reward shareholders by investing in the growth of our businesses and continuing our heritage of dividends and share buybacks. We plan on continuing to balance both of these moving forward. Now let me talk about the overall market.

Market Indicators	<u>3Q 2006</u> (change from 3Q 2005)
U.S. Real GDP*	2.9%
U.S. Industrial Production*	4.9%
EEC Real GDP*	2.2%
China Real GDP*	9.8%
N.A. Vehicle Production	-8.4%
N.A. Light Vehicle Sales	-6.4%
Western Europe Auto Production*	-3.6%
Western Europe, New Registrations*	-3.1%
U.S. Housing Starts*	-19%
U.S. Commercial Construction (Real Investment)*	9%
*Estimates	

Market Indicators

The slide "Market Indicators" shows that, in North America, growth continues to moderate as evidenced by the estimated third quarter GDP year-over-year change of about 2.9 percent. Industrial production in the quarter was up a solid 4.9 percent versus the year-ago quarter. However, it is important to note that last year's figures for both economic metrics were somewhat impacted by the U.S. hurricanes. Regardless, these figures continue to illustrate what we have been saying for the past nine months, that is growth is, in fact, continuing, but at an overall disciplined pace.

In Europe we continue to see many economic signals that solidify the growth trend which began late last year. Current estimates have Western European GDP expanding at about 2.2 percent year-over-year. As we mentioned last quarter, the momentum created in this region is certainly sustainable for the remainder of this year, as the fourth quarter economic activity will be aided by pre-buying ahead of a VAT increase next year.

Similar to Europe, Japan has also begun to post growth figures, but in an erratic fashion. Certainly in emerging regions such as China and India, strong growth patterns continue without any apparent end. Economists estimate third quarter growth in China of about 9.8 percent and India of 8.9 percent. I will discuss this region in detail later, but let me just add that we continue to benefit from growth in the Asian region due to our strong industry positions in the coatings market.

In North America, overall vehicle production was down about 8 percent in the quarter and is down less than 2 percent year-to-date. Per Global Insight, third quarter production was down 21 percent for DaimlerChrysler, 10 percent for General Motors and 11 percent for Ford. Toyota had production declines of 4 percent, while Nissan was up 1 percent. Hyundai had significant production gains due to the startup of their new U.S. facility mid-last year. Honda's production was up about 2 percent.

Global Insight projects North American automotive production to be down about 4 percent in the fourth quarter, with full year 2006 production down slightly more than 2 percent year-over-year.

Also in the third quarter, according to Global Insight, Western European vehicle production is estimated to have been down about 4 percent, with Eastern European production up over 15 percent. France, the U.K. and Spain were all down between 9 percent and 16 percent; Germany was up 1 percent; while Italy posted a 22-percent year-over-year improvement. Global Insight forecasts fourth quarter Western European vehicle production to be up 3 percent to 4 percent, with relatively flat vehicle sales. Eastern European production is expected to continue on its torrid pace.

Back in the U.S., housing starts slowed significantly in the quarter to just about 1.6 million units annually, down about 19 percent year-over-year. However, despite this pronounced drop in housing, we experienced volume growth in both architectural coatings and performance glazings as commercial construction continues to demonstrate sustained and near double-digit activity increases.

Again, despite notable decreases in the quarter for North American auto production and U.S. housing starts, PPG was able to recognize all-time third quarter record sales in our automotive OEM coatings, architectural paints and performance glazings architectural glass businesses. This was accomplished due to our global and customer breadth, end-market diversity and strategic acquisitions over the past year.

2006 Key Topics and Outlook

- Economy
- Inflation
 - Energy
 - Raw Materials

2006 Key Topics and Outlook

Referring to the slide “2006 Key Topics and Outlook,” on the economy, in North America we expect GDP growth to continue to slow, but on a global basis Europe, Japan and the emerging economies should grow faster and more than offset the North American deceleration.

Looking ahead, the North American industrial base will continue with a focus on inventory management. Meanwhile industrial and chemical exports from North America will be more attractive,

given lower input costs driven by falling energy prices. Additionally, we expect lower import levels into the U.S. due to higher economic activity levels abroad, higher currency conversion rates, and lower incentives to import based on U.S. price levels that are no longer elevated due to residual hurricane impacts.

The European market growth will continue to shift from primarily an export focus to one based more on internal consumption as consumers elevate their participation. The early part of year 2007 may present some temporary challenges to growth due to a higher Euro, the VAT pull forward into 2006, a slowing U.S. economy and now higher interest rates.

The emerging economies, primarily China and India, will continue to grow at very high levels despite continued government efforts to curb the growth rate. We expect these economies to continue to suppress overall labor-rate inflation and end-consumer inflation throughout the world.

Overall, global GDP will continue to grow and reward those companies such as PPG who have established significant global market positions and are able to quickly adapt and capitalize on geographic growth patterns.

Barring any unforeseen geopolitical event, we expect the North American economy to post somewhat similar year-over-year growth rates for the remainder of 2006, and expect the global GDP rate to continue to grow at similar rates as the recent past.

Now moving to inflation, we believe both North American and global overall inflation are fairly well contained with the outlook improving on reduced energy prices. The overall interest rate environment remains fairly steady in the U.S., with rates still below historical levels. In other regions of the world, interest rates are gradually rising but still very favorable when compared historically.

From a PPG perspective, we already have absorbed very high inflationary impacts over the past few years in energy, primarily natural gas, and coatings raw materials.

With respect to natural gas, as I mentioned earlier, our natural gas costs were down year-over-year. We use 60 to 70 trillion BTUs of natural gas a year to generate power for the production of chlorine and caustic soda and to produce glass and fiber glass. So if natural gas costs change by a dollar per million BTU, our pretax costs change by about \$60 to \$70 million on an annual basis.

We have been active in our natural gas hedging program and hedged nearly 60 percent of our fourth quarter requirements at about \$7.50 per MMBTU. The primary goal of our hedging program has always been to moderate, over time, large price fluctuations in our natural gas purchases.

Our coatings raw material costs began to rise rapidly in late 2004 and continued at an elevated level since that time period. These costs are primarily petroleum-based, so we are pleased with the current direction of oil pricing. The ultimate costs will also be driven based on supply and demand, and looking forward we currently see some cracks forming in several somewhat snug markets.

To summarize, and to reiterate what we said for the past several quarters, we believe the overall economic environment today remains stable, with some sectors experiencing difficulty and others growing, as is traditionally the case. We believe that lower energy costs will provide the U.S. industrial base with a tailwind, rather than the constant headwind that has been prevalent over the past several years. This will improve the global competitiveness of the industrial base. We also believe global growth will continue at a fairly high historical level.

As evidenced this past quarter, this type of environment will favor companies such as PPG that have a global presence servicing customers with world-class products and services.

And now let me review our excellent sales and growth activity in the quarter.

Approx. Trends in Sales – Total PPG

3Q 2006 (change from 3Q 2005)	Sales	Volume/Mix	Price	Curr.	Acq./Other
	10%	1%	2%	2%	5%

Approximate Trends in Sales – Total PPG

Looking at our year-over-year sales trends this quarter, sales were up 10 percent, pricing and currency both added 2 percent, while business acquisitions contributed 5 percent and volumes were up 1 percent. Once again, our sales performance was an all-time third quarter record for PPG.

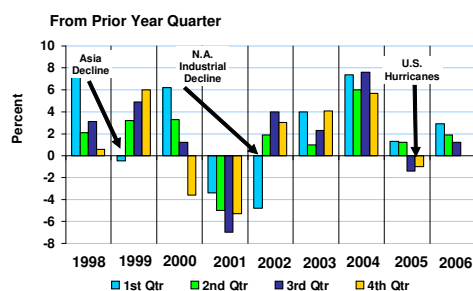
Total volume was up slightly, with volumes down less than 1 percent in North America and up 5 percent in Europe, 10 percent in Asia and 6 percent in Latin America.

Volume gains were realized in chemicals at 3 percent and coatings at 1 percent, with glass volumes flat.

Once again pricing improved about 2 percent overall. Glass pricing was down slightly, while chemical pricing increased 1 percent and coatings pricing improved by about 3 percent. Coatings pricing has improved for seven consecutive quarters, reflecting the impact of rising raw materials over the same period.

We indicated last quarter that we expected business acquisitions to add about 4 percent to 5 percent to our total sales, and they in fact added 5 percent this quarter. As I mentioned earlier, we expect that percentage to increase in the fourth quarter as several of our acquisitions occurred during the third quarter.

Quarterly Volume Change – Total PPG

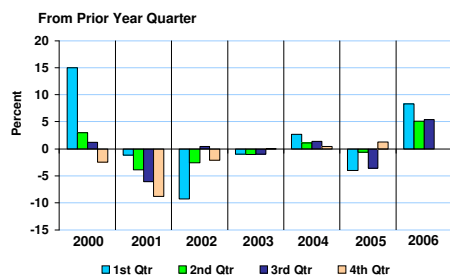


Finally, currency added just over \$40 million to our total revenues for the quarter and about \$6 million to operating earnings.

Quarterly Volume Change – Total PPG

Moving to the slide “Quarterly Volume Change – Total PPG,” as we stated last year and reiterated each quarter this year, we projected North American economic growth but at a slower rate, with the overall global economy expanding more rapidly. Our total PPG volume growth of between 1 percent and 3 percent in each quarter of this year is reflective of these economic developments.

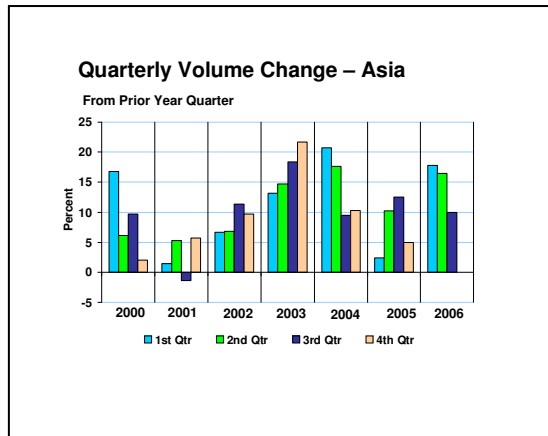
Quarterly Volume Change – Europe



Quarterly Volume Change – Europe

The next slide depicts our European volumes.

Our volumes for the quarter in Europe were up over 5 percent. This is the fourth consecutive quarter of year-over-year volume growth. This reflects a trend of very solid economic activity in the region, coupled with our continued market penetration in several of our businesses.



Quarterly Volume Change – Asia

Moving to the Asian volume slide, we continue to experience extremely healthy growth in this region. As illustrated on the slide, we once again achieved double-digit organic volume growth this past quarter.

While not depicted on the slide, our total Asian sales in the quarter increased by nearly 60 percent, as this excellent organic growth is being supplemented by acquisitions. As a result Asia now accounts for 12 percent of our coatings sales,

and sales there have nearly doubled in just the past two years.

Now let me discuss our individual business performance, which supports the geographic sales growth.

Approx. Trends in Sales – Coatings

3Q 2006 (change from 3Q 2005)	Sales	Volume/Mix	Price	Curr.	Acq./Other
COATINGS	15%	1%	3%	2%	9%
Automotive OEM	10%	-1%			
Refinish	12%	-2%			
Industrial	16%	1%			
Aerospace	11%	4%			
Architectural	26%	2%			
Packaging	17%	12%			

Approximate Trend in Sales – Coatings

The next slide is coatings sales trends. In the quarter, coatings enjoyed an all-time record third quarter sales level and also broke the all-time record for any quarter. Our strong growth, aided partially by acquisitions, is even more impressive when considering it was achieved despite a historically seasonally slower quarter due to both European holidays and July automotive changeovers.

Overall in the quarter sales grew 15 percent, and as I mentioned we had growth of nearly 60 percent in Asia. Coatings pricing increased 3 percent, volumes were up 1 percent, acquisitions added 9 percent and currency added 2 percent.

Automotive OEM coatings sales grew 10 percent and were a third quarter record. Volumes were down only 1 percent, despite a very challenging North American vehicle market and a slightly lower overall European market. These results continue to reflect the value of our customer and geographic breadth.

Pricing was flat, which is significant considering the history of downward price pressure in this market. Currency added 4 percent. Acquisitions added about 7 percent, driven by us absorbing 100-percent interest in our Korean joint venture.

It is important to note that the combined U.S. and Canada auto markets account for less than 40 percent of our total automotive OEM coatings sales, and that globally the vehicle market remains excellent. Global Insight currently expects fourth quarter vehicle production to decline year-over-year in North America but to increase in Europe.

Refinish sales grew 12 percent and were a third quarter record and all-time record. Volumes declined slightly, price was up mid-single digits and acquisitions accounted for the remainder of the sales gain.

Industrial coatings sales grew at a healthy 16 percent and were both a third quarter and all-time quarterly sales record. Pricing improved 4 percent, acquisitions added 9 percent and currency added 2 percent. Overall volumes were up slightly as North American volumes were down but offset by strong volumes in all other regions of the world.

We continue to benefit from global economic growth, and as our overall industrial markets globalize, the demand for global solutions and global product support – which are our strengths – continue to increase.

Aerospace sales were up 11 percent and were a record for the third quarter and also an all-time record for any quarter. We continue to see global strength here as well, evidenced by our double-digit volume growth in both Europe and Asia.

Also aiding sales were our acquisitions of both Eldorado and Sierracin. These acquisitions strategically complement our overall aerospace product offerings.

Architectural coatings sales expanded 26 percent and were easily a third quarter record, surpassing our previous all-time quarterly record set in the third quarter last year. We achieved gains in pricing, volumes and via acquisitions.

In the quarter, our sales grew in all three channels: national accounts, dealers and company-owned service centers. We now have almost 450 company-owned service centers – up almost 50 percent in less than two years, with the majority of those stores added this year coming via acquisition.

Lastly, packaging coatings also recognized an all-time sales record for any quarter, led by strong volume gains.

Let me summarize our coatings discussions by reiterating that all six of our coatings businesses delivered double-digit top-line growth. For the second consecutive quarter, all six of our coatings businesses enjoyed a quarterly sales record, with five delivering all-time records for any quarter. Selling price and acquisitions were primary catalysts for this record performance.

Moving forward, we see stronger organic growth as a result of our ongoing ability to meet or exceed our customers' requirements. This volume growth will continue to be supplemented by sales from the business acquisitions we already announced this year, and by continued pricing actions which are focused on accelerating the improvement of our industry-leading margins back to their historical levels.

Approx. Trends in Sales - Glass

3Q 2006 (change from 3Q 2005)	Sales	Volume/Mix	Price	Curr.	Acq./Other
GLASS	2%	0%	-1%	1%	2%
Automotive OEM	-8%	-7%			
Automotive ARG	6%	1%			
Insurance & Services	-11%	-11%			
Fiber Glass	6%	5%			
Performance Glazings	6%	5%			

Approximate Trends in Sales – Glass

Moving to the glass sales trends slide, glass sales increased by 2 percent, with price and currency offsetting and acquisitions contributing 2 percent. Volumes were flat in the quarter.

Sales in OEM glass were down 8 percent, in sync with overall North American vehicle production. Price was off 2 percent, volumes down 7 percent, and currency added a percent. As I mentioned last quarter, automotive OEM glass remains a very competitive industry, with overcapacity and a

difficult financial environment for the domestic automakers. Looking forward, we see this tough environment continuing well into next year, and we continue to monitor overall capacity and believe 2007 is going to be a critical year for the OEM glass industry.

Auto replacement glass sales grew 6 percent, as we continue to grow the quantity of glass we distribute through our distribution network. Also, we have put in place over the past year or so a revised sourcing strategy and now source 20 percent of the glass we distribute from producers in low-labor-cost regions of the world.

Our fiber glass sales were up 6 percent versus the prior year, primarily on volume growth of 5 percent. As I mentioned last quarter, in this business we are also moving to a global sourcing strategy with the recent startup of our new Sinoma reinforced fiber glass joint venture in China, where we will shift production of our more labor-intensive products.

Our performance glazings architectural glass business delivered record third quarter sales, improving 6 percent year-over-year. This sales growth is driven by volume gains as commercial construction continues to flourish. As we mentioned previously, more than half of our sales are into the commercial construction segment, and these products are typically our value-added coated and tinted products.

Approx. Trends in Sales – Chemicals

3Q 2006 (change from 3Q 2005)	Sales	Volume/Mix	Price	Curr.	Acq./Other
CHEMICALS	6%	2%	1%	1%	2%
Commodity	0%	-1%			
Specialty	17%	10%			

Approximate Trends in Sales – Chemicals

Moving to chemical sales, overall chemical sales were up 6 percent to a new third quarter record. I will remind you that last year our sales in the third quarter were slightly impacted by the U.S. hurricanes. We experienced a greater sales impact in the fourth quarter, as Hurricane Rita hit our Lake Charles facility at the end of September.

This year chlor-alkali prices grew modestly year-over-year, but declined slightly versus the second quarter of 2006. Overall volumes were down about 1 percent versus prior year.

Our specialty chemical sales grew by 17 percent, as our optical business once again had another strong quarter. Also, we continue to benefit from our acquisitions of International Polarizer and Intercast, as they have strategically broadened our optical product offering.

Looking ahead, we expect continued growth in our specialty chemicals segment, which is dominated by our optical products business. Regarding chlor-alkali, as we have stated for over a year now, the overall market remains steady with capacity in the industry now set to contract in the near future.

Use of Cash

- Prudently fund businesses
- Dividends
- Manage debt
- Pension funding & asbestos settlement
- Related acquisitions
- Repurchase stock

Use of Cash

Now turning to the slide “Use of Cash,” we have been very active in deploying our strong cash generation, and yet, as I will describe, we remain very balanced. As many of you know, we have a systematic approach toward prioritizing our uses of cash. Our overriding objective has been and will continue to be utilizing cash to benefit shareholders.

First, we “prudently fund” our businesses, and believe capital spending will be between \$300 to \$400 million for the year. This remains in our

longstanding communicated range of about 3.5 percent to 4.0 percent of sales. Year-to-date, we have spent about \$230 million on capital projects, excluding acquisitions.

Next, we continue our legacy of rewarding shareholders with returns in the form of dividends, as evidenced by the fact that we have paid uninterrupted dividends for 107 years. In the first quarter we once again raised our dividend, marking 35 consecutive years of increasing dividend payments. Year-to-date we have paid nearly \$240 million to shareholders via dividends.

Third is managing debt, and our debt-to-total capital is about 27 percent, still at the lower end of our target range. We currently have only minimal amounts of debt maturing until the year 2015.

With respect to pensions, as stated last quarter and following the legislative changes, our U.S. pension plans do not require mandatory funding until at least 2008 based on conservative assumptions concerning pension-fund investment returns and utilizing our substantial funding credits. We recognize that over time we will need to contribute funds to the plans, and as we indicated last quarter, we chose to make a \$100 million contribution to our U.S. pension plans in the third quarter.

With regard to our proposed asbestos settlement, many of you have heard us discuss this for the past several years: Our arrangement on the settlement does not require any funding until the settlement is finalized and becomes effective. If the settlement becomes effective, we would need to fund around \$450 million of the accrued asbestos liability.

Next on our list are acquisitions, and we have completed a number of transactions focused in our coatings and optical businesses. These acquisitions provide both strategic and geographic benefits. In 2006, we have spent about \$400 million on these acquisitions, plus we assumed about \$80 million in debt. As I mentioned earlier, we expect a negligible earnings impact in 2006 based on these acquisitions on about \$350 million in sales. In 2007, we expect these acquisitions to add between \$700 and \$800 million in sales and be accretive to earnings.

The final priority is to repurchase stock with the remaining funds. Year-to-date we repurchased about 800,000 shares of stock, offsetting stock option dilution and then some. Looking at history, we have reduced our shares outstanding by over 40 percent since 1984.

To summarize our balanced cash uses, year-to-date we spent \$230 million on capital spending, a combined \$480 million for acquisitions and related debt, repurchased 800,000 shares of stock, continued our legacy by paying about \$240 million in dividends and also put \$100 million into our U.S. pension plan. After all this activity, we still have a healthy \$300 million of cash and short-term investments on hand. In addition to our cash position, we have significant short-term borrowing capacity of at least a billion dollars, and in addition, we have access to the long-term capital markets as well.

As you can see, our strong cash generation allows us to move ahead with a balanced approach on multiple fronts. The centerpiece of our well-balanced cash strategies remains rewarding shareholders in both the short term and the long term.

Conclusion

In conclusion, as I have mentioned for the past few quarters, we see growth continuing to moderate slightly in North America while major economies elsewhere in the world continue to gain momentum. This worldwide growth has resulted in global GDP acceleration the past several quarters. We believe that this continued global recovery, combined with disciplined growth in North America, will prolong the global economic cycle.

As we look back over the past quarter, we see a great deal of anxiety in the equity markets over the state of the economy. At that time we provided a list of some of the positive economic aspects in the North American economy. That list was as follows:

- Continued productivity growth
- Excellent commercial construction activity levels
- Strong business capital spending and balance sheets
- High industrial capacity utilization
- Solid industrial production

We reiterated that, with respect to the last two, in most industries additional capacity has not been built during the higher-growth periods, thus overcapacity in most industries has not been prevalent, resulting in a practical supply-demand balance.

All these positive factors still exist today, one quarter later, and we are now able to add to the list two additional significant factors of lower energy costs and a more stable interest-rate environment. Additionally, consumer spending, while slightly erratic, continues to provide a boost well in excess of most of the previous economic forecasts.

With regard to inflation, as I stated earlier, we expect overall inflation to remain well under control. Lower energy costs, stable labor rates and continued globalization will bolster overall industrial competitiveness for global companies. All these factors are likely to keep consumer inflation in check.

Certainly challenges remain in today's environment, with certain sectors like housing experiencing rapid activity-level decreases. However, an ever-increasingly fluid economy is much more efficient at offsetting losses in one sector with growth in other sectors. Several of the industries we service – such as optical, aircraft and commercial construction – are all continuing to grow at very solid levels, providing offsets to lower activity levels in other end-markets.

Once again, we remain optimistic, as the North American economy is supported by good fundamentals and the global economy is accelerating and enjoying growth rates above those of the past several years. As we stated last quarter, this growth diversification away from just North America is very positive, as it broadens the overall growth base. This global growth will be more beneficial to global companies such as PPG.

Let me conclude by reflecting once again on our excellent performance. We achieved all-time third quarter sales at PPG, which translated into excellent earnings per share. Our ever-broadening customer and geographic reach will continue to aid us, as will our past performance of integrating acquisitions and making them very profitable pieces of our overall portfolio.

We continue to expect growth in sales, earnings and operating cash flow moving forward. We remain rooted in our heritage strengths of being industry leaders in technologies and services, continuing our ever-present cost diligence, and by investing our strong and consistent cash flow wisely.

These time-tested PPG traits continue to serve us and our customers well, and have provided us means in the past and will allow us going forward to continue to grow and reward our shareholders.

PPG INDUSTRIES, INC,
Condensed Statement of Operations
3rd Quarter Results
(Millions of Dollars)

	3 Months Ended September 30		
	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Net Sales	\$ 2,802	\$ 2,547	10.0
Cost of Sales	\$ 1,791	1,614	
Gross Profit	\$ 1,011	\$ 933	8.4
Other Expenses (Earnings):			
Selling and Other	578	514	12.5
Depreciation	85	84	1.2
Interest	22	21	
Amortization	13	8	62.5
Asbestos Settlement - Net	6	4	
Business Restructuring	-	-	
Other - Net (a)	174	47	
Income Before Income Taxes and Minority Interest	133	255	
Income Tax Expense	25	77	(67.5)
Minority Interest	18	21	
Net Income (b)	\$ 90	\$ 157	(42.7)
Earnings per common share	\$ 0.54	\$ 0.93	(41.9)
Earnings per common share--assuming dilution	\$ 0.54	\$ 0.92	(41.3)
Average shares outstanding	165.7	168.9	(1.9)
Average shares outstanding--assuming dilution	166.6	170.0	(2.0)

- (a) The three months ended September 30, 2006, includes pretax charges of \$173 million for estimated environmental remediation costs at sites in New Jersey and Louisiana, pretax charges of \$35 million for legal settlements and pretax income of \$11 million for insurance recoveries. The three months ended September 30, 2005, included pretax charges of \$60 million for legal settlements, pretax charges of \$18 million for direct costs related to hurricanes, and pretax earnings of \$20 million for insurance recoveries.
- (b) The three months ended September 30, 2006, includes aftertax charges of \$106 million for estimated environmental remediation costs at sites in New Jersey and Louisiana, aftertax charges of \$21 million for legal settlements and aftertax earnings of \$7 million for insurance recoveries. The three months ended September 30, 2005, included aftertax charges of \$37 million for legal settlements, aftertax charges of \$11 million for direct costs related to hurricanes, and aftertax earnings of \$12 million for insurance recoveries.

PPG INDUSTRIES, INC.
Business Segment Information
3rd Quarter Results
(Millions of Dollars)

	Net Sales		Operating Income (Loss)	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
COATINGS (a)	\$ 1,605	\$ 1,396	\$ 185	\$ 210
GLASS (b)	564	554	40	(36)
CHEMICALS (c)	<u>633</u>	<u>597</u>	<u>(30)</u>	<u>121</u>
SUBTOTAL	<u>\$ 2,802</u>	<u>\$ 2,547</u>	<u>\$ 195</u>	<u>\$ 295</u>
INTEREST EXPENSE - NET			(18)	(18)
ASBESTOS SETTLEMENT - NET			(6)	(4)
COMPENSATION COST ASSOCIATED WITH STOCK OPTIONS			(9)	(7)
OTHER UNALLOCATED CORP. EXPENSE - NET			<u>(29)</u>	<u>(11)</u>
INCOME BEFORE INCOME TAXES, AND MINORITY INTEREST			<u>\$ 133</u>	<u>\$ 255</u>

- (a) Operating income for the three months ended September 30, 2006, includes a pretax charge of \$23 million for a legal settlement. Operating income for the three months ended September 30, 2005, included pretax earnings of \$18 million for an insurance recovery.
- (b) Operating loss for the three months ended September 30, 2005 included a pretax charge of \$61 million for a legal settlement.
- (c) Operating loss for the three months ended September 30, 2006, includes pretax charges of \$173 million for environmental remediation and pretax income of \$11 million for an insurance recovery. Operating income for the three months ended September 30, 2005, included pretax charges of \$18 million for direct costs related to hurricanes.

Forward-Looking Statement

Statements contained herein relating to matters that are not historical facts are forward-looking statements reflecting PPG's current view with respect to future events or objectives and financial or operational performance or results. These matters involve risks and uncertainties, as discussed in PPG's filings with the Securities and Exchange Commission pursuant to Sections 13(a), 13(c) or 15(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. Accordingly, many factors may cause actual results to differ materially from the forward-looking statements contained herein.

Such factors include increasing price and product competition by foreign and domestic competitors, fluctuations in cost and availability of raw materials and energy, the ability to maintain favorable supplier relationships and arrangements, economic and political conditions in international markets, foreign exchange rates and fluctuations in such rates, and the unpredictability of existing and possible future litigation, including litigation that could result if the asbestos settlement discussed in PPG's filings with the SEC does not become effective. However, it is not possible to predict or identify all such factors. Consequently, while the list of factors presented here is considered representative, no such list should be considered to be a complete statement of all potential risks and uncertainties. Unlisted factors may present significant additional obstacles to the realization of forward-looking statements.

Consequences of material differences in results compared with those anticipated in the forward-looking statements could include, among other things, business disruption, operational problems, financial loss, legal liability to third parties and similar risks, any of which could have a material adverse effect on PPG's consolidated financial condition, operations or liquidity.