PPG INDUSTRIES INC
Form 10-Q
October 28, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For Quarter Ended September 30, 2013
Commission File Number 1-1687

PPG INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	25-0730780 (I.R.S. Employer Identification No.)
One PPG Place, Pittsburgh, Pennsylvania (Address of principal executive offices)	15272 (Zip Code)

(412) 434-3131
(Registrant’s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

As of September 30, 2013, 142,022,634 shares of the Registrant’s common stock, par value $1.66-2/3 per share, were outstanding.

Table of Contents

PPG INDUSTRIES, INC. AND SUBSIDIARIES
INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Income (Unaudited)
(Millions, except per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net sales	$3,980	$3,408	$11,406	$10,269
Cost of sales, exclusive of depreciation and amortization	2,238	1,983	6,528	5,995
Selling, general and administrative	964	779	2,742	2,394
Depreciation	91	78	262	233
Amortization (Note 7)	28	27	88	82
Research and development	123	112	362	335
Interest expense	48	54	148	155
Interest income	(11)	(10)	(30)	(29)
Restructuring provision (Note 8)	98	—	98	208
Asbestos settlement – net (Note 19)	3	3	9	9
Other charges (Note 19)	120	20	168	206
Other income	(31)	(40)	(85)	(100)
Income before income taxes	309	402	1,116	781
Income tax expense (Note 12)	60	92	242	159
Income from continuing operations	249	310	874	622
Income from discontinued operations, net of income taxes (Note 5)	6	54	2,197	189
Net income attributable to the controlling and noncontrolling interests	255	364	3,071	811
Less: Net income attributable to noncontrolling interests	(29)	(25)	(94)	(97)
Net income (attributable to PPG)	$226	$339	$2,977	$714
Amounts attributable to PPG:				
Income from continuing operations, net of tax	$220	$288	$780	$535
Income from discontinued operations, net of tax (Note 5)	6	51	2,197	179
Net income (attributable to PPG)	$226	$339	$2,977	$714
Earnings per common share (Note 11):				
Income from continuing operations, net of tax	$1.54	$1.88	$5.40	$3.49
Income from discontinued operations, net of tax	0.04	0.33	15.21	1.17
Net income (attributable to PPG)	$1.58	$2.21	$20.61	$4.66
Earnings per common share – assuming dilution (Note 11):				
Income from continuing operations, net of tax	$1.52	$1.86	$5.34	$3.46
Income from discontinued operations, net of tax	0.04	0.32	15.05	1.15
Net income (attributable to PPG)	$1.56	$2.18	$20.39	$4.61
Dividends per common share	$0.61	$0.59	$1.81	$1.75

The accompanying notes to the condensed consolidated financial statements are an integral part of this condensed consolidated statement.

2

Table of Contents

PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Comprehensive Income (Unaudited)
(Millions)

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net income attributable to the controlling and noncontrolling interests	$255	$364	$3,071	$811
Other comprehensive (loss) income, net of tax (Note 15):				
Pension and other postretirement benefits	—	13	198	71
Foreign currency translation	172	85	(18)	38
Marketable equity securities	(1)	—	—	—
Derivative financial instruments	2	(4)	9	(10)
Other comprehensive income, net of tax	$173	$94	$189	$99
Total comprehensive income	428	458	3,260	910
Less: amounts attributable to noncontrolling interests:				
Net income	(29)	(25)	(94)	(97)
Foreign currency translation	(3)	(5)	8	(3)
Comprehensive income attributable to PPG	$396	$428	$3,174	$810

The accompanying notes to the condensed consolidated financial statements are an integral part of this condensed consolidated statement.

Table of Contents

PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheet (Unaudited)
(Millions)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$1,562	$1,306
Short-term investments	687	1,087
Receivables (less allowance for doubtful accounts of $86 and $77)	3,122	2,813
Inventories (Note 6)	1,878	1,687
Deferred income taxes	424	430
Other	447	392
Total current assets	8,120	7,715
Property, plant and equipment (net of accumulated depreciation - $4,762 and $6,142)	2,687	2,888
Goodwill (Note 7)	3,023	2,761
Identifiable intangible assets - net (Note 7)	1,371	1,085
Deferred income taxes	629	669
Investments	404	422
Other assets	404	338
Total	$16,638	$15,878
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$3,503	$3,061
Asbestos settlement (Note 19)	732	683
Restructuring reserves (Note 8)	100	75
Short-term debt and current portion of long-term debt (Note 9)	27	642
Total current liabilities	4,362	4,461
Long-term debt (Note 9)	3,368	3,368
Pensions (Note 13)	909	1,057
Other postretirement benefits (Note 13)	1,120	1,287
Asbestos settlement (Note 19)	242	237
Deferred income taxes	216	231
Other liabilities	940	915
Total liabilities	11,157	11,556
Commitments and contingent liabilities (Note 19)		
Shareholders' equity (Note 14):		
Common stock	484	484
Additional paid-in capital	936	870
Retained earnings	12,589	9,871
Treasury stock, at cost	(7,329)	(5,496)
Accumulated other comprehensive loss	(1,469)	(1,666)
Total PPG shareholders' equity	5,211	4,063
Noncontrolling interests	270	259
Total shareholders' equity	5,481	4,322
Total	$16,638	$15,878

The accompanying notes to the condensed consolidated financial statements are an integral part of this condensed consolidated statement.

4

Table of Contents

PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Cash Flows (Unaudited)

(Millions)	Nine Months Ended September 30 2013	2012
Operating activities:		
Net income attributable to controlling and noncontrolling interests	$3,071	$811
Less: Income from discontinued operations, net of income taxes (Note 5)	(2,197)	(189)
Income from continuing operations	874	622
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	350	315
Pension expense (Note 13)	72	110
Canadian pension settlement charge (Note 13)	18	—
Restructuring provision (Note 8)	98	208
Environmental remediation charges (Note 19)	101	159
Stock-based compensation expense	59	53
Deferred income taxes	(63)	(127)
Equity affiliate losses (earnings), net of dividends	9	(8)
Asbestos settlement, net of tax	6	6
Pension cash contributions	(47)	(58)
Restructuring cash spending (Note 8)	(56)	(63)
Other	71	(84)
Change in certain asset and liability accounts:		
Receivables	(302)	(225)
Inventories	(12)	(83)
Other current assets	(25)	(3)
Accounts payable and accrued liabilities	166	49
Noncurrent assets	(31)	(9)
Noncurrent liabilities	(69)	(36)
Income taxes payable and interest payable	59	40
Cash from operating activities - Continuing Operations	1,278	866
Cash from operating activities - Discontinued Operations	4	173
Cash from operating activities	1,282	1,039
Investing activities:		
Additions to property, plant and equipment, and long-term investments	(259)	(193)
Proceeds from sale of assets	—	29
Business acquisitions, net of cash balances acquired (Note 4)	(978)	(53)
Proceeds from separation and merger of commodity chemicals business, net (Note 5)	940	—
Purchase of short-term investments	(1,063)	(730)
Proceeds from maturity of short-term investments	1,532	120
Payments on cross currency swap contracts	(5)	(23)
Other	2	6
Cash from (used for) investing activities - Continuing Operations	169	(844)
Cash used for investing activities - Discontinued Operations	(1)	(32)
Cash from (used for) investing activities	168	(876)
Financing activities:		
Net payments on short-term debt	(13)	(8)
Proceeds from debt issuance (Note 9)	1	397
Payment of debt (Note 9)	(607)	(202)

Settlement of forward starting swaps	—	(121)
Proceeds from termination of swaps	—	29
Issuance of treasury stock (Note 14)	59	110
Purchase of treasury stock (Note 14)	(320)	(92)
Dividends paid (Note 14)	(259)	(267)
Dividends paid on subsidiary common stock to noncontrolling interests (Note 14)	(58)	(61)
Other	10	(13)
Cash used for financing activities - Continuing Operations	(1,187)	(228)
Cash used for financing activities - Discontinued Operations	—	(13)
Cash used for financing activities	(1,187)	(241)
Effect of currency exchange rate changes on cash and cash equivalents	(7)	13
Net increase/(decrease) in cash and cash equivalents	256	(65)
Cash and cash equivalents, beginning of period	1,306	1,457
Cash and cash equivalents, end of period	$1,562	$1,392
Supplemental disclosures of cash flow information:		
Interest paid, net of amount capitalized	$166	$178
Taxes paid, net of refunds	$231	$367

The accompanying notes to the condensed consolidated financial statements are an integral part of this condensed consolidated statement.

Table of Contents

PPG INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements included herein are unaudited. In the opinion of management, these statements include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the financial position of PPG Industries, Inc. and its subsidiaries (the “Company” or “PPG”) as of September 30, 2013, and the results of their operations for the three and nine months ended September 30, 2013 and 2012 and their cash flows for the nine months then ended. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in PPG’s Annual Report on Form 10-K for the year ended December 31, 2012.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results of operations for the nine months ended September 30, 2013 and the trends in these unaudited condensed consolidated financial statements may not necessarily be indicative of the results to be expected for the full year.

Certain reclassifications of prior years’ data have been made to conform to the current year presentation.

On January 28, 2013, PPG completed the separation of its commodity chemicals business and the merger of the subsidiary holding the PPG commodity chemicals business with a subsidiary of the Georgia Gulf Corporation ("Georgia Gulf"). The combined company formed by uniting Georgia Gulf with PPG's former commodity chemicals business is named Axiall Corporation ("Axiall"). PPG holds no ownership interest in Axiall. The Company concluded that the accounting requirements for reporting the results of operations and cash flows of its former commodity chemicals business as discontinued operations were met when its separation and merger was completed. The accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2012, the condensed consolidated statement of cash flows for the nine months ended September 30, 2012, and the amounts in these notes to the condensed consolidated financial statements related to 2012 have been adjusted to reflect the presentation of the results of operations and cash flows of the former commodity chemicals business as discontinued operations. Refer to Note 5 for additional information relating to this transaction.

2. New Accounting Standards

On February 5, 2013, the Financial Accounting Standards Board (the "FASB") issued an amendment to the disclosure requirements for reporting reclassifications out of accumulated other comprehensive income ("AOCI"). The new requirements were effective for the first interim or annual period beginning after December 15, 2012. The amendment requires companies to present information about reclassification adjustments from accumulated other comprehensive income to the income statement, including the income statement line items affected by the reclassification. The information must be presented in the financial statements in a single note or on the face of the financial statements. The new accounting guidance also requires the disclosure to be cross referenced to other financial statement disclosures for reclassification items that are not reclassified directly to net income in their entirety in the same reporting period. PPG adopted the new requirements in the first quarter of 2013; however, the adoption of this guidance did not have an effect on its consolidated financial position, results of operations or cash flows (see Note 15, "Accumulated Other Comprehensive Income").

On July 18, 2013, the FASB issued an Accounting Standard Update ("ASU") that changes how certain unrecognized tax benefits are to be presented on the consolidated balance sheet. This ASU clarifies current guidance to require that an unrecognized tax benefit or a portion thereof be presented in the consolidated balance sheet as a reduction to a deferred tax asset for a net operating loss ("NOL") carryforward, similar tax loss, or a tax credit carryforward except when an NOL carryforward, similar tax loss, or tax credit carryforward is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. In such a case, the unrecognized tax benefit would be presented in the consolidated balance sheet as a liability. This new standard is effective for the first interim or annual period beginning after December 15, 2013. This standard is to be applied prospectively to all unrecognized tax benefits that exist at the effective date. Early adoption and retrospective application are permitted. PPG is currently evaluating the new requirements; however, it does not expect that the adoption of this guidance will have a material effect on its consolidated financial position, results of operations or cash flows.

Table of Contents

3. Fair Value Measurement

The accounting guidance on fair value measurement establishes a hierarchy with three levels of inputs used to determine fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities, considered to be the most reliable evidence of fair value, and should be used whenever available. Level 2 inputs are observable prices that are not quoted on active exchanges. Level 3 inputs are unobservable inputs used for measuring the fair value of assets or liabilities.

Assets and liabilities reported at fair value on a recurring basis:
(Millions)

	Level 1	Level 2	Level 3	Total
At September 30, 2013				
Short-term investments:				
Commercial paper and certificates of deposit	$—	$201	$—	$201
Other current assets:				
Marketable equity securities	5	—	—	5
Foreign currency contracts[(a)]	—	15	—	15
Equity forward arrangement[(a)]	—	176	—	176
Other assets:				
Foreign currency contracts[(a)]	—	1	—	1
Investments:				
Marketable equity securities	67	—	—	67
Accounts payable and accrued liabilities:				
Foreign currency contracts[(a)]	—	5	—	5
Other liabilities:				
Cross currency swaps[(a)]	—	107	—	107
At December 31, 2012				
Short-term investments:				
Commercial paper and certificates of deposit	$—	$455	$—	$455
Other current assets:				
Marketable equity securities	5	—	—	5
Foreign currency contracts[(a)]	—	3	—	3
Equity forward arrangement[(a)]	—	130	—	130
Investments:				
Marketable equity securities	60	—	—	60
Accounts payable and accrued liabilities:				
Foreign currency contracts[(a)]	—	1	—	1
Other liabilities:				
Cross currency swaps[(a)]	—	95	—	95

(a) This balance is designated as a hedging instrument under U.S. generally accepted accounting principles.

Assets and liabilities reported at fair value on a nonrecurring basis:

As a result of the 2013 restructuring plan, as discussed in Note 8, “Business Restructuring”, long-lived assets with a carrying amount of $3 million were written-down to fair value resulting in a charge of $3 million which was included in the business restructuring expense reported in the nine months ended September 30, 2013. These long-lived assets were valued using Level 3 inputs.

As a result of the 2012 restructuring plan, as discussed in Note 8, “Business Restructuring”, long-lived assets with a carrying amount of $10 million were written-down to fair value of $7 million, resulting in a charge of $3 million, which was included in the business restructuring expense reported in the nine months ended September 30, 2012.

These long-lived assets were valued using Level 3 inputs.

Table of Contents

4. Acquisitions and Divestitures

During the nine month period ended September 30, 2013, the Company completed the acquisition of two coatings businesses. The Company spent $978 million on these acquisitions, net of cash acquired and including purchase price adjustments related to acquisitions that were completed prior to December 31, 2012.

On April 1, 2013, PPG finalized the acquisition of the North American architectural coatings business of Akzo Nobel N.V., Amsterdam, the Netherlands ("Legacy Akzo") for $957 million, net of cash acquired of $14 million, and including a preliminary working capital adjustment. The purchase price is subject to customary post closing adjustments. The acquisition further extends PPG’s architectural coatings business in the United States, Canada and the Caribbean. With this acquisition, PPG has expanded its reach in all three major North American architectural coatings distribution channels, including home centers, independent paint dealers and company-owned paint stores. Since April 1, 2013, the results of this acquired business have been included in the results of the architectural coatings - Americas and Asia Pacific operating segment, within the Performance Coatings reportable segment. Net sales reported by PPG from the date of acquisition from this acquired business were approximately $400 million and $875 million for the three and nine month periods ended September 30, 2013, respectively. Earnings from this acquisition have been in the mid single digit percentage return on sales since the acquisition date.

PPG is in the process of completing valuations of assets acquired and liabilities assumed. As such, the allocation of the purchase price is subject to change. The following table summarizes the estimated fair value of assets acquired and liabilities assumed as reflected in the preliminary purchase price allocation for the Legacy Akzo acquisition.

	(Millions)
Current assets	$558
Property, plant, and equipment	183
Trademarks with indefinite lives	174
Identifiable intangible assets with finite lives	196
Goodwill	262
Other non-current assets	28
Total assets	$1,401
Current liabilities	(332)
Accrued pensions	(29)
Other post-retirement benefits	(40)
Other long-term liabilities	(43)
Total liabilities	$(444)
Total purchase price, net of cash acquired	$957

The following information reflects the net sales of PPG for the nine months ended September 30, 2013 and the three and nine months ended September 30, 2012 on a pro forma basis as if the acquisition of Legacy Akzo had been completed on January 1, 2012.

Condensed Consolidated Pro Forma information (unaudited)

Millions	Three months ended September 30, 2012	Nine months ended September 30, 2012	Nine months ended September 30, 2013
Net sales	$3,802	$11,493	$11,778

The pro forma impact on PPG's results of operations, including the pro forma effect of events that are directly attributable to the acquisition, was not significant. While calculating this impact, no cost savings or operating synergies that may result from the acquisition were included.

Table of Contents

In May 2013, the Company completed the acquisition of certain assets of Deft Incorporated, a privately-owned specialty coatings company based in Irvine, Calif. The acquisition enhances the coatings capabilities of PPG's aerospace business. Deft products include structural primers and military topcoats for the North American aviation industry. In addition, Deft produces some architectural and general industrial coatings.

During the nine months ended September 30, 2012, the Company closed three acquisitions related to its coatings businesses. The total cost of these acquisitions was $207 million, including debt assumed of $122 million. These acquisitions also provide for contingent payments and escrowed holdbacks. Substantially all of the acquisition activity relates to the two acquisitions described below, as the third acquisition was not significant.

In January 2012, PPG completed the purchase of European coatings company Dyrup A/S ("Dyrup"), based in Copenhagen, Denmark, from its owner, Monberg & Thorsen A/S, a public holding company, for $44 million, of which $26 million is currently being held in escrow. As part of the transaction, PPG assumed debt of $120 million and acquired cash of $6 million. Dyrup, a producer of architectural coatings and woodcare products, operates six manufacturing facilities throughout Europe, and its products are sold primarily in Denmark, France, Germany, Portugal, Poland, and Spain through professional and do-it-yourself channels.

Also in January 2012, PPG completed the purchase of the coatings businesses of Colpisa Colombiana de Pinturas and its affiliate, Colpisa Equador ("Colpisa"), for $38 million, of which $2 million continues to be held in an escrow account as of September 30, 2013 until certain conditions are met, as defined in the purchase agreement. Colpisa manufactures and distributes coatings for automotive OEM, automotive refinish and industrial coatings customers in Colombia and Ecuador.

The purchase price allocations related to the acquisitions made in 2012 resulted in an excess of purchase price over the fair value of the tangible and identifiable intangible assets acquired and liabilities assumed, which was recorded as an addition to "Goodwill".

The following table summarizes the fair value of assets acquired and liabilities assumed as reflected in the final purchase price allocations for the Dyrup and Colpisa acquisitions.

	(Millions)
Cash	$6
Current assets	131
Property, plant, and equipment	79
Goodwill	24
Identifiable intangible assets	26
Other non-current assets	19
Total assets	$285
Short-term debt	(110)
Current liabilities	(64)
Long-term debt	(10)
Other long-term liabilities	(19)
Total liabilities	$(203)
Total purchase price including cash in escrow and contingent payments	$82

In July 2013, PPG reached an agreement to divest its 51 percent interest in Transitions Optical to Essilor International, which currently holds a 49 percent interest in the venture. Transitions Optical is a global supplier of photochromic lenses and a consolidated subsidiary of PPG. The transaction reflects an enterprise value of approximately $3.4 billion, with PPG receiving cash at closing of $1.73 billion pretax or approximately $1.5 billion after-tax, subject to certain post-closing working capital and net debt adjustments. In 2012, Transitions Optical had net sales of approximately $800 million. Essilor will also enter into multi-year agreements with PPG for continuing supply of optical dyes and research and development services and will acquire PPG's optical sunlens business. The transaction is expected to close in the first half of 2014, subject to satisfaction of customary closing conditions, including receipt of regulatory approvals.

Currently, all Transitions Optical sales are consolidated in PPG's financial statements. Essilor's minority share of the joint venture's net earnings is reflected as a reduction to PPG's net income and presented in the financial statements

9

Table of Contents

as “Net income attributable to non-controlling interests”. Upon receipt of regulatory approvals, PPG expects to account for Transitions Optical as discontinued operations.

5. Separation and Merger Transaction

On January 28, 2013, the Company completed the previously announced separation of its commodity chemicals business and merger of its wholly-owned subsidiary, Eagle Spinco Inc., with a subsidiary of Georgia Gulf Corporation in a tax efficient Reverse Morris Trust transaction (the “Transaction”). Pursuant to the merger, Eagle Spinco, the entity holding PPG's former commodity chemicals business, became a wholly-owned subsidiary of Georgia Gulf. The closing of the merger followed the expiration of the related exchange offer and the satisfaction of certain other conditions. The combined company formed by uniting Georgia Gulf with PPG's former commodity chemicals business is named Axiall Corporation (“Axiall”). PPG holds no ownership interest in Axiall. PPG received the necessary ruling from the Internal Revenue Service and as a result this Transaction was generally tax free to PPG and its shareholders.

Under the terms of the exchange offer, 35,249,104 shares of Eagle Spinco common stock were available for distribution in exchange for shares of PPG common stock accepted in the offer. Following the merger, each share of Eagle Spinco common stock automatically converted into the right to receive one share of Axiall Corporation common stock. Accordingly, PPG shareholders who tendered their shares of PPG common stock as part of this offer received 3.2562 shares of Axiall common stock for each share of PPG common stock accepted for exchange. PPG was able to accept the maximum of 10,825,227 shares of PPG common stock for exchange in the offer, and thereby, reduced its outstanding shares by approximately 7 percent. The completion of this exchange offer was a non-cash financing transaction, which resulted in an increase in "Treasury stock" at a cost of $1.562 billion based on the PPG closing stock price on January 25, 2013.

Under the terms of the Transaction, PPG received $900 million of cash and 35.2 million shares of Axiall common stock (market value of $1.8 billion on January 25, 2013) which was distributed to PPG shareholders by the exchange offer as described above. In addition, PPG received $67 million in cash for a preliminary post-closing working capital adjustment under the terms of the Transaction agreements. The net assets transferred to Axiall included $27 million of cash on the books of the business transferred. The cash consideration is subject to post-closing adjustments, including a final working capital adjustment, under the terms of the Transaction agreements. In the Transaction, PPG transferred environmental remediation liabilities, defined benefit pension plan assets and liabilities and other post-employment benefit liabilities related to the commodity chemicals business to Axiall.

During the first quarter of 2013, PPG recorded a gain on the Transaction reflecting the excess of the sum of the cash proceeds received and the cost (closing stock price on January 25, 2013) of the PPG shares tendered and accepted in the exchange for the 35.2 million shares of Axiall common stock over the net book value of the net assets of PPG's former commodity chemicals business. The Transaction resulted in a net partial settlement loss of $33 million associated with the spin out and termination of defined benefit pension liabilities and the transfer of other post-retirement benefit liabilities under the terms of the Transaction. The Company also incurred $14 million of pretax expense, primarily for professional services related to the Transaction during the first nine months of 2013 as well as approximately $2 million of net expense related to certain retained obligations and post closing adjustments under the terms of the Transaction agreements. The net gain on the Transaction of $2.2 billion includes these related losses and expenses.

The results of operations and cash flows of PPG's former commodity chemicals business for January 2013 and the net gain on the Transaction are reported as results from discontinued operations for the three and nine months ending September 30, 2013. In prior periods presented, the results of operations and cash flows of PPG's former commodity chemicals business have been reclassified from continuing operations and presented as results from discontinued operations.

PPG will provide Axiall with certain transition services for up to 24 months following the closing date of the Transaction. These services include logistics, purchasing, finance, information technology, human resources, tax and payroll processing.

10

Table of Contents

Net sales and earnings from discontinued operations are presented in the table below for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30		Nine Months Ended September 30	
Millions	2013	2012	2013	2012
Net sales	$—	$437	$108	$1,283
Income from operations	$—	$84	$—	$283
Net gain from separation and merger of commodity chemicals business	—	—	2,192	—
Income tax expense	6	(30)	5	(94)
Income from discontinued operations, net of tax	6	54	2,197	189
Less: Net income attributable to non-controlling interests, discontinued operations	—	3	—	10
Net income from discontinued operations (attributable to PPG)	$6	$51	$2,197	$179

Income from discontinued operations before income taxes for the three and nine months ended September 30, 2012 is $10 million and $17 million lower, respectively than segment earnings for the PPG Commodity Chemicals segment previously reported for these periods. These differences are due to the inclusion of certain gains, losses and expenses associated with the chlor-alkali and derivatives business that was separated but were not part of the PPG Commodity Chemicals segment earnings in accordance with the accounting guidance on segment reporting.

The major classes of assets and liabilities of the commodity chemicals business included in the PPG balance sheet at December 31, 2012 were as follows:

Millions	December 31, 2012
Cash	$29
Receivables	245
Inventory	76
Other current assets	23
Property, plant, and equipment	380
Goodwill	6
Other non-current assets	29
Total assets of the commodity chemicals business	$788
Accounts payable	(100)
Other current liabilities	(91)
Accrued pensions and other post-retirement benefits	(233)
Environmental contingencies	(31)
Other long-term liabilities	(59)
Noncontrolling interests	$(18)
Net assets of the commodity chemicals business	$256

The total assets of the commodity chemicals business presented above are $50 million higher than the assets of the PPG Commodity Chemicals segment reported at December 31, 2012 principally due to the inclusion of cash and deferred tax assets which were included in corporate assets for PPG segment reporting.

Table of Contents

6. Inventories

Inventories as of September 30, 2013 and December 31, 2012 are detailed below:

	September 30, 2013 (Millions)	December 31, 2012
Finished products	$1,169	$980
Work in process	160	144
Raw materials	479	443
Supplies	70	120
Total	$1,878	$1,687

Most U.S. inventories are valued using the last-in, first-out method. These inventories represented approximately 36% of total inventories at September 30, 2013 and December 31, 2012, respectively. If the first-in, first-out method of inventory valuation had been used, inventories would have been $196 million and $243 million higher as of September 30, 2013 and December 31, 2012, respectively.

7. Goodwill and Other Identifiable Intangible Assets

The change in the carrying amount of goodwill attributable to each reportable segment for the nine months ended September 30, 2013 was as follows:

	Performance Coatings (Millions)	Industrial Coatings	Architectural Coatings – EMEA	Optical and Specialty Materials	Commodity Chemicals	Glass	Total
Balance, Dec. 31, 2012	$1,173	$512	$970	$48	$6	$52	$2,761
Acquisitions	262	3	—	—	—	—	265
Separation of commodity chemicals (Note 5)	—	—	—	—	(6)	—	(6)
Foreign currency	(19)	3	17	2	—	—	3
Balance, Sept. 30, 2013	$1,416	$518	$987	$50	$—	$52	$3,023

The carrying amount of acquired trademarks with indefinite lives as of September 30, 2013 and December 31, 2012 totaled $498 million and $324 million, respectively.

The Company’s identifiable intangible assets with finite lives are being amortized over their estimated useful lives and are detailed below:

	September 30, 2013			December 31, 2012		
	Gross Carrying Amount (Millions)	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer-related intangibles	$1,173	$(532)	$641	$1,010	$(491)	$519
Acquired technology	523	(362)	161	516	(342)	174
Tradenames	126	(59)	67	120	(57)	63
Other	30	(26)	4	34	(29)	5
Balance	$1,852	$(979)	$873	$1,680	$(919)	$761

Aggregate amortization expense related to these identifiable intangible assets for the three and nine months ended September 30, 2013 was $28 million and $88 million, respectively, and for the three and nine months ended September 30, 2012 was $27 million and $82 million, respectively. As of September 30, 2013, estimated future amortization expense of identifiable intangible assets is as follows: approximately $30 million for the remaining three months of 2013 and approximately $120 million, $120 million, $101 million, $93 million and $91 million in 2014, 2015, 2016, 2017 and 2018, respectively.

12

Table of Contents

8. Business Restructuring

In July 2013, the Company approved a business restructuring plan that resulted in a pre-tax charge of $98 million. The approved actions are focused on achieving cost synergies related to the recent AkzoNobel North American architectural coatings acquisition, including actions in the acquired business, as well as, in PPG's legacy architectural business. Additionally, smaller targeted actions were approved for businesses where market conditions remain very challenging, most notably protective and marine coatings and certain European businesses such as architectural coatings and fiber glass. The restructuring actions will impact about 1,400 employees.

The charge of $98 million is comprised of employee severance and other costs of approximately $93 million and asset write-offs of approximately $5 million. Cash payouts for certain liabilities will take place over the next few years with about 40 percent and 50 percent of the cash payments expected to occur in 2013 and 2014, respectively, and the remainder in 2015. All actions in the restructuring plan are expected to be completed by the end of 2014.

The following table summarizes the 2013 restructuring charge and the activity during the three months ended September 30, 2013:

(Millions, except no. of employees)	Severance and Other Costs	Asset Write-offs	Total Reserve	Employees Impacted
Performance Coatings	$51	$4	$55	1,016
Industrial Coatings	14	—	14	165
Architectural Coatings - EMEA	23	1	24	237
Glass	4	—	4	14
Corporate	1	—	1	4
Total	$93	$5	$98	1,436
Activity to date	(10)	(5)	(15)	(350)
Foreign currency impact	4		4	—
Balance as of September 30, 2013	$87	$—	$87	1,086

In March 2012, the Company approved a business restructuring plan that resulted in a charge of $208 million. The approved actions were taken to reduce the Company's cost structure, primarily due to continuing weak economic conditions in Europe and in the commercial and residential construction markets in the U.S. and Europe. As part of this restructuring plan, PPG closed several laboratory, warehouse and distribution facilities and small production units and reduced staffing. The restructuring impacted a number of businesses globally, primarily the global architectural businesses and general and administrative functions in Europe.

The charge of $208 million is comprised of employee severance and other cash costs of $160 million, asset write-offs of $53 million, and a net pension curtailment gain of $5 million. The Company also recognized additional costs directly associated with the restructuring actions for demolition, dismantling, relocation and training that were charged to expense as incurred, totaling $5 million, most of which was incurred by December 31, 2012.

In the fourth quarter of 2012, adjustments of approximately $12 million were recorded to reduce the restructuring reserve established in the first quarter of 2012 to reflect changes in the estimated cost to complete these actions. Also in the fourth quarter of 2012, some additional restructuring actions were approved and charges of approximately $12 million for the estimated cost of these actions were recorded. The additional actions increased the number of employees impacted by 273. All actions in the restructuring plan are expected to be completed by the end of 2013.

Table of Contents

The following table summarizes the 2012 restructuring charge and the activity in the restructuring reserve during the nine months ended September 30, 2013:

(Millions, except no. of employees)	Severance and Other Costs	Pension Curtailment (Gains)/Losses	Asset Write-offs	Total Reserve	Employees Impacted
Performance Coatings	$55	$ 1	$12	$68	867
Industrial Coatings	38	(1)	8	45	394
Architectural Coatings - EMEA	61	(5)	3	59	881
Optical & Specialty Materials	2	—	30	32	50
Glass	3	—	—	3	36
Corporate	1	—	—	1	4
Total	$160	$ (5)	$53	$208	2,232
2012 activity	(83)	5	(53)	(131)	(1,631)
Foreign currency Impact	(2)	—	—		