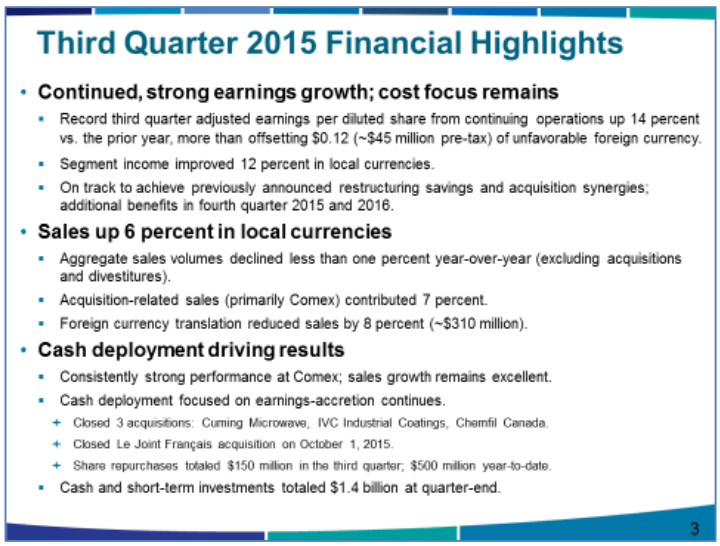
PPG Industries, Inc. Third Quarter 2015 Financial Results

Earnings Brief – October 15, 2015



Third Quarter Financial Highlights

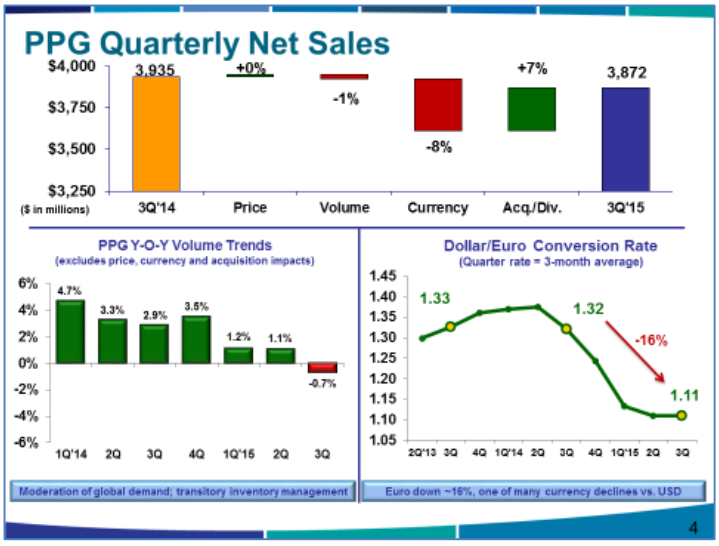
PPG net sales for the third quarter of 2015 were $3.87 billion versus the prior year figure of $3.94 billion. Year-over-year sales in local currencies grew by about 6 percent, or about $250 million. Acquisition-related sales contributed 7 percent but were offset by lower overall sales volumes of less than 1 percent. Foreign currency translation negatively impacted net sales by about 8 percent, or about $310 million. More detailed sales comparisons for the company and each reporting segment are included on subsequent presentation slides.

Year-over-year adjusted diluted earnings per share from continuing operations increased 14 percent to a new third quarter record of $1.61. Unfavorable foreign currency impacted pre-tax segment income by approximately $45 million, or about 12 cents per diluted share. Segment income in local currencies improved 12 percent, aided by improved operational and cost performance. The company's aggressive cost focus continues, including the previously announced restructuring program initiated during the second quarter. The program is expected to deliver annual pre-tax savings of $100 -to- $105 million once full-year run rate savings are achieved in 2017. We expect to achieve $15 -to- $20 million of savings in 2015.

Also contributing to the earnings per share results were the benefits from continuing cash deployment. This includes acquisition-related income stemming from Comex and other recent acquisitions. The Comex business has continued to deliver excellent sales growth with a high-single digit percentage growth rate for the year. This is being supplemented by the initial sales synergies of PPG's legacy products sold through the Comex concessionaire network.

Share repurchases continued during the third quarter of 2015 totaling $150 million, bringing the year-to-date total to approximately $500 million, which is ahead of the prior year. At the end of the third quarter, the company's year-over-year average diluted shares outstanding decreased by more than 2 percent.

The company continues to have excellent financial flexibility with $1.4 billion of cash and short-term investments at quarter-end, and earnings-accretive cash deployment remains a focus. Four additional acquisitions, Cuming Microwave, IVC Industrial Coatings, Le Joint Français (LJF), and Chemfil, closed since the end of the second quarter. These are in addition to the REVOCOAT and Consorcio Latinamericano acquisitions closed earlier in 2015.

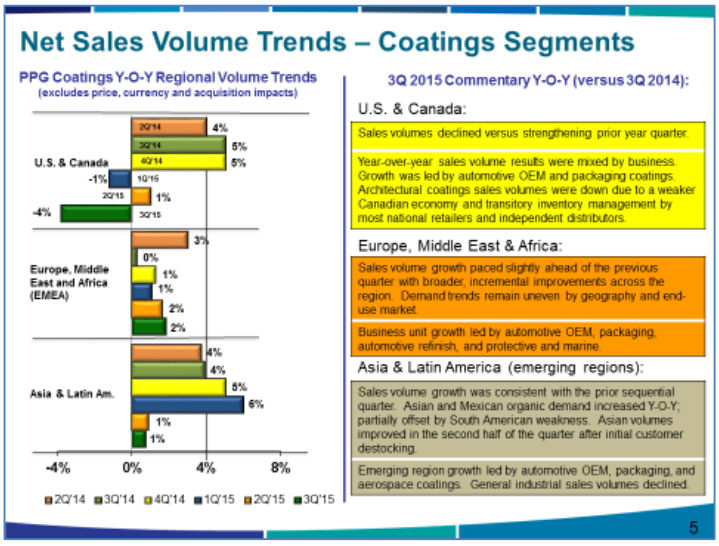


PPG Third Quarter Net Sales

PPG net sales for the third quarter of 2015 were $3.87 billion, a slight decrease versus the prior year figure of $3.94 billion. Year-over-year sales volumes declined by less than 1 percent, reflecting overall moderation of global economic growth during the quarter and transitory customer inventory management.

Foreign currency translation reduced sales by about 8 percent as many currencies weakened versus the U.S. dollar, including a decline of about 16 percent year-over-year in the three-month average Euro to U.S. dollar exchange rate. In addition, several other currencies generated unfavorable translation impacts, including the Canadian Dollar, Mexican Peso, Australian Dollar, British Pound, and Brazilian Real. Foreign currency impacts were greater than anticipated in the third quarter due to further weakening of certain emerging country currencies. We expect full year foreign currency to unfavorably impact sales by $1.1 billion and pre-tax income from continuing operations by $120 -to- $130 million based on current exchange rates and traditional business seasonal patterns. At the end of the third quarter, year-to-date foreign currency had unfavorably impacted pre-tax income from continuing operations by approximately $115 million.

Acquisition-related sales added about 7 percent to third quarter 2015 sales. This increase was driven primarily by the Comex acquisition and was supplemented by several smaller acquisitions made over the prior 12 months. The one-year anniversary of the Comex acquisition occurs in November 2015. Comex sales will be attributed to acquisition-related growth for one month in the fourth quarter with the remainder classified as organic volume growth.



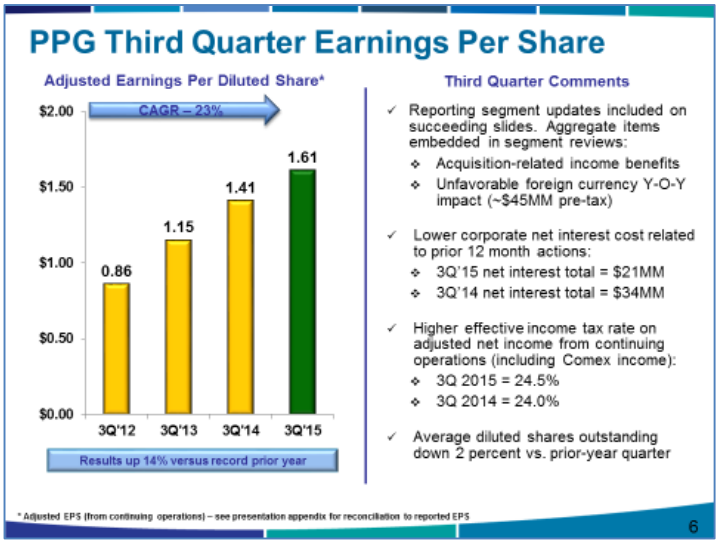
Net Sales Volume Trends - Coatings Segments

Global aggregate coatings segment sales volume for the third quarter of 2015 declined by less than 1 percent driven by volume declines in the U.S. and Canada. All other major regions had positive sales volume growth.

Sales volumes in the U.S. and Canada were down 4 percent compared to a strengthening prior-year period. The year-over-year sales volume decline was due to the impacts of a weakening Canadian economy and transitory customer inventory management in architectural coatings. These impacts were partially offset by sales volume growth in automotive original equipment manufacturer (OEM) coatings and packaging coatings.

Year-over-year Europe, Middle East and Africa (EMEA) sales volumes advanced 2 percent, slightly better than the second quarter growth rate due to broader, incremental regional improvement. Regional demand growth continued, with growth in certain countries and end-use markets offset by weakness in others. From an end-use market perspective, automotive OEM, automotive refinish, protective and marine, and packaging coatings delivered the strongest year-over-year gains. Architectural coatings EMEA sales in local currencies were flat versus the prior year.

Emerging region sales volumes grew about 1 percent in the third quarter of 2015 versus the prior year, in-line with the second quarter growth rate. Asia and Mexico (excluding acquisitions), grew volumes in the third quarter, partially offset by weakening in South America. Positive Asian third quarter volume growth included higher PPG automotive OEM coatings volumes despite negative year-over-year third quarter China automotive industry builds. Asian demand was soft early in the quarter primarily due to customer inventory management, but stabilized and improved later in the quarter. Aiding higher automotive OEM demand growth was a stronger packaging and aerospace coatings demand partially offset by lower general industrial activity.



PPG Third Quarter Earnings Per Share

Third quarter 2015 adjusted earnings per diluted share from continuing operations of $1.61 established a new third quarter record for the company, up 20 cents, or 14 percent, versus the prior-year record.

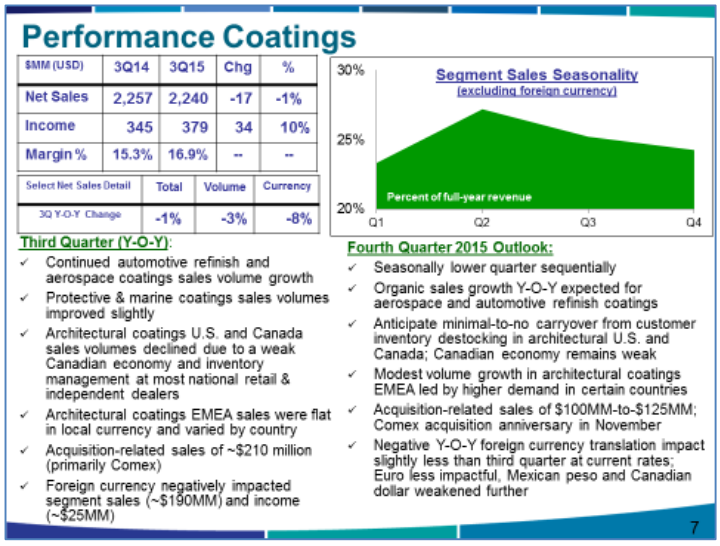
The financial results from each individual reporting segment are provided in subsequent portions of the presentation materials. There are several third quarter noteworthy items related to the company as a whole:

- Acquisition-related income, primarily Comex, supplemented segment income growth.
- Year-over-year unfavorable foreign currency impacted pre-tax segment income by about $45 million, or about 12 cents per diluted share.
- Based on a variety of debt optimization actions over the past year, net interest expense declined in the third quarter of 2015 versus the prior year.

The adjusted effective tax rate from continuing operations for the third quarter of 2015 was 24.5 percent, up from 24.0 percent in the previous year. The increase is primarily due to the geographic mix of income, including acquisition-related income from Comex, which is taxed at a Mexican statutory tax rate of 30 percent.

Lastly, PPG's average diluted shares outstanding decreased by more than 2 percent year-over-year due to our share repurchase activity.

A detailed reconciliation of the third quarter adjusted earnings per share figures, for all periods presented, is included in the presentation materials appendix.



Performance Coatings

The Performance Coatings segment's net sales for the third quarter of 2015 were $2.24 billion, down about 1 percent versus the prior year. Acquisitions, including Comex and other smaller acquisitions, increased segment sales by about $210 million. Unfavorable foreign currency translation reduced segment sales by about $190 million, or approximately 8 percent. Segment net sales in local currencies were up about 8 percent compared to the prior year. During the third quarter, segment sales volumes declined about 3 percent year-over-year.

From a business unit perspective, sales volume growth continued in aerospace coatings and automotive refinish coatings, aided by growing market demand and continued customer adoption of innovative PPG technologies. We expect continued growth in the fourth quarter of 2015 for these businesses, supplemented by sales from the recently closed Cuming Microwave and Le Joint Français (LJF) acquisitions.

Protective and marine coatings global sales volumes increased slightly during the third quarter, including protective growth in Asia and Europe, partially offset by lower marine demand in Asia. Demand in South America was weak, consistent with prior quarters. U.S. and Canadian demand was mixed with certain protective coating gains offset by weakness in the energy sub-sector. We anticipate similar sales trends in local currencies in the fourth quarter. In addition, sales synergies from the Comex acquisition will benefit protective and marine coatings growth going forward.

Architectural coatings EMEA organic sales were flat in comparison to the prior year. Demand remained inconsistent throughout the region with modest growth in certain countries including the U.K., while other countries, such as France, experienced lower demand. The mixed country trends will likely remain in the fourth quarter of 2015, but we anticipate modest overall volume growth.

The architectural coatings Americas and Asia Pacific businesses experienced a high single-digit percentage volume decline in the third quarter, stemming from a weaker Canadian economy and from transitory inventory management by most national retail customers and independent dealers. This negative customer inventory impact was the result of lower than anticipated industry growth due to unfavorable weather-related painting conditions earlier in the 2015 paint season. We expect modest year-over-year industry growth in the fourth quarter with minimal-to-no PPG impact from further customer destocking.

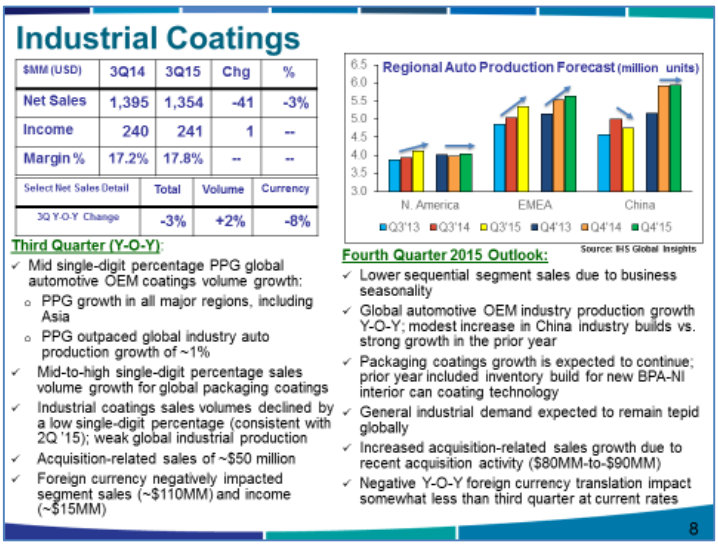
Third quarter 2015 acquisition-related net sales for the segment of about $210 million were slightly below the previously projected third quarter range of $220 -to- $240 million due to the closing timing of new acquisitions and the impact of a weaker Mexican peso versus the U.S. dollar.

We expect acquisition-related net sales for the fourth quarter of 2015 to be in the range of $100 -to- $120 million for the segment. Beginning in November, the Comex acquisition will reach its first anniversary and subsequent business results will positively impact organic growth. Comex acquisition-related cost and sales synergies will continue to positively impact the segment.

Third quarter segment income was $379 million, up $34 million or 10 percent year-over-year, driven primarily by acquisition-related income and improved operating performance partially offset by unfavorable sales volumes and foreign currency translation, which negatively impacted segment income by about $25 million.

From an overall segment perspective, Performance Coatings third quarter sales were seasonally lower than the second quarter, coupled with the impact from transitory customer inventory management. We anticipate lower sales sequentially in the fourth quarter due to business seasonality, with little-to-no additional customer inventory destocking. It is worth noting that Comex traditionally experiences its highest demand seasonally in the fourth quarter.

Based on current exchange rates, foreign currency translation will have a modestly lower unfavorable absolute dollar impact in the fourth quarter given the traditionally lower seasonal quarterly segment sales and earnings. The Euro began weakening versus the U.S. dollar in the fourth quarter of 2014. In 2015, the Mexican peso and Canadian dollar have weakened vs. the U.S. dollar.



Industrial Coatings

Industrial Coatings segment net sales for the third quarter of 2015 were $1.35 billion, down $41 million, or 3 percent, compared to the previous year. Segment sales volumes grew by over 2 percent consistent with the second quarter, led by Europe. Unfavorable foreign currency translation impacted segment sales by approximately 8 percent, or about $110 million. Segment net sales in local currencies were up 5 percent, including about $50 million from acquisition-related sales.

PPG's global automotive OEM coatings business achieved sales volume growth in all major regions, with a mid-single-digit percentage growth year-over-year. In comparison, global industry auto production grew by about 1 percent in the quarter. PPG growth was led by strengthening European demand and continued strong demand in the U.S. PPG volume in Asia was also positive despite declining industry production rates in China. In addition, the REVOCOAT acquisition which closed earlier this year, contributed sales growth in the third quarter. Year-over-year global automotive industry production growth is forecasted to occur in all major regions during the fourth quarter 2015, including a return to modest growth in China.

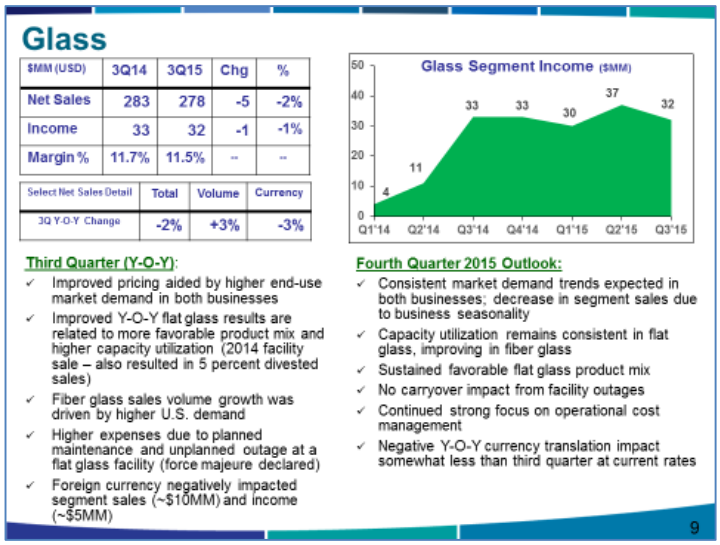
Packaging coatings sales volumes were up a mid-to-high single-digit percentage, consistent with the prior sequential quarter. Sales growth benefited from initial industry adoption of PPG's new internal can coatings technologies and was consistently favorable across most product lines. We expect business growth to continue in the fourth quarter of 2015 despite a tougher comparison period due to initial customer inventory stocking of new PPG "BPA-NI" internal can coating technology products in the prior year.

Volume growth was mixed by end-use market and geography in PPG's general industrial coatings and specialty coatings and materials businesses compared to the prior year. In aggregate, volumes declined a low single-digit percentage, in-line with the second quarter of 2015.

Weakening demand in certain industrial production sub-sectors negatively impacted overall industrial customer demand in all regions. Growth occurred in certain end-use markets, including auto parts and accessories and electronics. Demand weakness remained in heavy-duty equipment. Looking forward, we expect flat-to-modest growth in overall global general industrial demand for the fourth quarter of 2015.

Third quarter segment income of $241 million was up modestly, as volume growth and acquisition-related income were offset by about $15 million of unfavorable foreign currency-related impacts.

We expect that foreign currency, primarily Euro-related, will have less of an impact on year-over-year sales and earnings in the fourth quarter of 2015 versus the third quarter as foreign currency exchange rates weakened significantly versus the U.S. dollar in the fourth quarter of 2014.



Glass

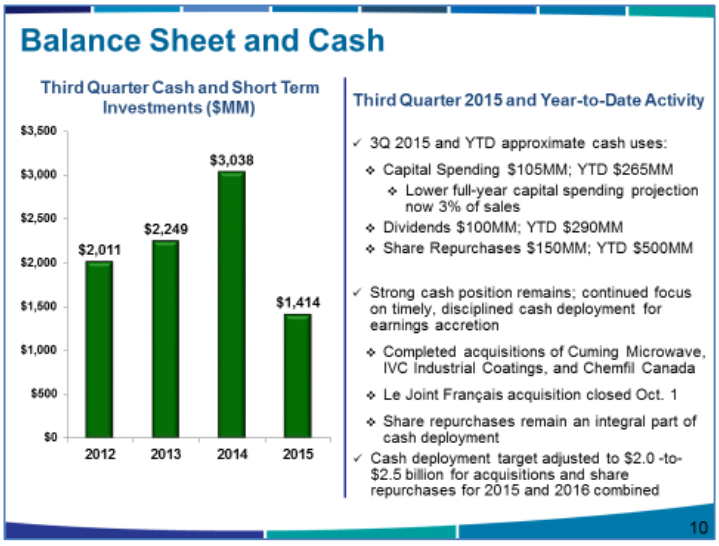
Third quarter net sales for the Glass segment were $278 million, down $5 million versus the prior year. For the segment, higher selling prices from both glass businesses were offset by lower sales stemming from a flat glass facility divestiture in 2014 and unfavorable foreign currency impacts of about $10 million.

Flat glass sales volumes were comparable with the prior year as increased market demand was offset by lower sales due to an unplanned facility outage, which resulted in a force majeure declaration. The 2014 facility divestiture decreased segment sales by 5 percent. Product mix was positive due to a shift to value added and specialty glass products following the 2014 facility sale.

Fiber glass sales volumes increased by a mid-single-digit percentage year-over-year, led by improving end-customer demand in the U.S. Pricing was positive, driven by higher market demand.

Segment income in the quarter was $32 million, down $1 million year-over-year. The decline in income is due to facility outage-related expenses and repair costs coupled with an unfavorable foreign currency impact of approximately $5 million. Higher pricing, positive flat glass sales mix, lower manufacturing costs stemming from the 2014 facility sale, and a strong focus on cost management served as an offset.

We expect pricing and demand conditions to remain consistent in both glass businesses in the fourth quarter with lower segment sales due to normal business seasonality. We anticipate lower foreign currency-related impacts to sales and earnings sequentially in the fourth quarter as foreign currency exchange rates weakened significantly versus the U.S. dollar in the fourth quarter of 2014. We do not expect any additional carryover impact from the facility outages that occurred in the third quarter of 2015.



Balance Sheet and Cash

PPG ended the third quarter with about $1.4 billion in cash and short-term investments, compared to the prior year figure of more than $3.0 billion.

Operating working capital, as a percentage of sales, improved 20 basis points versus prior year, mainly due to improved inventory management.

Uses of cash for the third quarter and year-to-date were as follows:

- Capital expenditures, excluding acquisitions, were about $105 million in the quarter and about $265 million year-to-date. Anticipated 2015 capital spending is estimated to be 3.0 percent of sales, down from the previously communicated range of 3.5 -to- 4.0 percent of sales.

- Dividends paid in the quarter were about $100 million and are about $290 million year-to-date. The per share dividend paid in the quarter was up 7 percent versus the prior year.

- PPG stock repurchases totaled $150 million in the quarter, with about 1.5 million shares repurchased. Year-to-date, purchases are approximately $500 million. The company has about $1.2 billion remaining under its current share repurchase authorization as of quarter-end.

Since the end of the second quarter, PPG closed 4 acquisitions; Cuming Microwave, IVC Industrial Coatings, Le Joint Français (LJF), and Chemfil Canada. The sales and earnings for these acquisitions will be included in the fourth quarter results. Prior to the third quarter, PPG closed the acquisitions of REVOCOAT and Consorcio Latinoamericano.

In addition, the company remains committed to and on track with the previously announced business restructuring program to adjust employee levels and production capacity in certain businesses and regions and to achieve cost synergies related to recent acquisitions. Cash savings from the business restructuring program is expected to be about $100 -to- $105 million when full year run-rate savings are achieved in 2017, including a 2015 partial year savings of $15 -to- $20 million. The company remains committed to earnings-accretive cash deployment. We had previously announced a cash-deployment target of $1.5 -to- $2.5 billion focused on acquisitions and share repurchases for the combined calendar years of 2015 and 2016. We are now targeting at least $2.0 -to- $2.5 billion over the same time period.



Third Quarter Summary

In summary for the third quarter, PPG achieved record third quarter earnings per diluted share driven by increased segment sales in local currencies, acquisition-related sales and earnings benefits, and a strong focus on

operational excellence and cost management. The acquisition-related sales improvement served to offset significant, unfavorable foreign currency-related impacts. Year-over-year volumes declined due to transitory customer inventory destocking and a moderation of global economic growth. Third quarter adjusted earnings per diluted share increased 14 percent versus a record prior year. Segment income improved by 6 percent versus the prior year, and 12 percent excluding unfavorable currency translation.

The company's continued execution of its strategic actions and ongoing accretive cash deployment helped drive the third quarter record results. The Comex acquisition has achieved a high single-digit percentage organic sales growth rate versus prior year pre-acquisition levels year-to-date. In addition, PPG closed 6 acquisitions in 2015, including 4 which occurred since the end of the second quarter. Acquisition-related sales and synergies for Comex and other acquisitions will continue to benefit PPG in the fourth quarter of 2015 and into 2016.

Third quarter earnings per diluted share also benefited from ongoing share repurchases, including an additional $150 million of repurchases in the third quarter 2015, bringing the year-to-date total value of shares repurchased to approximately $500 million. PPG's year-over-year average diluted shares outstanding decreased by more than 2 percent in the third quarter. The company's balance sheet remains strong with $1.4 billion of cash and short-term investments at quarter-end. Earnings accretive cash deployment remains a focus.

PPG has several drivers to increase earnings per share going forward. We anticipate a resumption of organic volume growth in the fourth quarter which will increase operating leverage across the businesses. We are on track to achieve our previously announced restructuring savings and acquisition-related sales and cost synergies. We will financially benefit from our recent acquisitions and we have an active acquisition pipeline globally. Finally, we will receive benefits from our continued cash deployment actions.



PPG Path Forward

The PPG Path Forward summarizes key initiatives from Michael McGarry, PPG's President and CEO. Michael will provide some additional discussion on these topics on PPG's third quarter earnings teleconference.



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Additional Materials and Appendix

Thank you for your interest in PPG Industries, Inc.
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Adjusted EPS Reconciliation

3rd Quarter Reporting Period

	Continuing Operations		Discontinued Operations		Total PPG	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
Year 2015						
Net Income Attributable to PPG as Reported	$ 433	$ 1.59	--	--	$ 433	$ 1.59
Transaction-related costs	1	--	--	--	1	--
Pension windup charges	5	0.02	--	--	5	0.02
Adjusted Net Income Attributable to PPG	$ 439	$ 1.61	--	--	$ 439	$ 1.61
Year 2014						
Net Income Attributable to PPG as Reported	$ 377	$ 1.35	$ (6)	$ (0.02)	$ 371	$ 1.33
Transaction-related costs	2	0.01	--	--	2	0.01
Pension windup charges	2	0.01	--	--	2	0.01
Legacy environmental reserves	86	0.30	--	--	86	0.30
Gain on asset sales	(73)	(0.26)	--	--	(73)	(0.26)
Adjusted Net Income Attributable to PPG	$ 394	$ 1.41	$ (6)	$ (0.02)	$ 388	$ 1.39
Year 2013						
Net Income Attributable to PPG as Reported	$ 204	$ 0.70	$ 22	$ 0.08	$ 226	$ 0.78
Transaction-related costs	3	0.01	1	--	4	0.01
Legacy environmental reserves	56	0.19	--	--	56	0.19
Business restructuring	73	0.25	--	--	73	0.25
Adjusted Net Income Attributable to PPG	$ 336	$ 1.15	$ 23	$ 0.08	$ 359	$ 1.23
Year 2012						
Net Income Attributable to PPG as Reported	$ 269	$ 0.86	$ 70	$ 0.23	$ 339	$ 1.09
Business separation costs	--	--	9	0.03	9	0.03
Adjusted Net Income Attributable to PPG	$ 269	$ 0.86	$ 79	$ 0.26	$ 348	$ 1.12

Amounts in Millions of USD except EPS

Forward-Looking Statements

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 and financial performance. These matters within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, involve risks and uncertainties that may affect PPG's operations, as discussed in PPG's filings with the Securities and Exchange Commission pursuant to Sections 13(a), 13(c) or 15(d) of the Exchange Act, and the rules and regulations promulgated thereunder. Accordingly, many factors could cause actual results to differ materially from the forward-looking statements contained herein. Such factors include global economic conditions, increasing price and product competition by foreign and domestic competitors, fluctuations in cost and availability of raw materials, the ability to maintain favorable supplier relationships and arrangements, the timing realization of anticipated cost savings from restructuring initiatives, difficulties in integrating acquired businesses and achieving expected synergies therefrom, economic and political conditions in international markets, the ability to penetrate existing, developing and emerging foreign and domestic markets, foreign exchange rates and fluctuations in such rates, fluctuations in tax rates, the impact of future legislation, the impact of environmental regulations, unexpected business disruptions, 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 Securities and Exchange Commission does not become effective. However, it is not possible to predict or identify all such factors. Consequently, while the list of factors presented here and in PPG's 2014 Form 10-K are 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, lower sales or earnings, 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, results of operations or liquidity. All information in this presentation speaks only as of October 15, 2015, and any distribution of this presentation after that date is not intended and will not be construed as updating or confirming such information. PPG undertakes no obligation to update any forward-looking statement, except as otherwise required by applicable law.