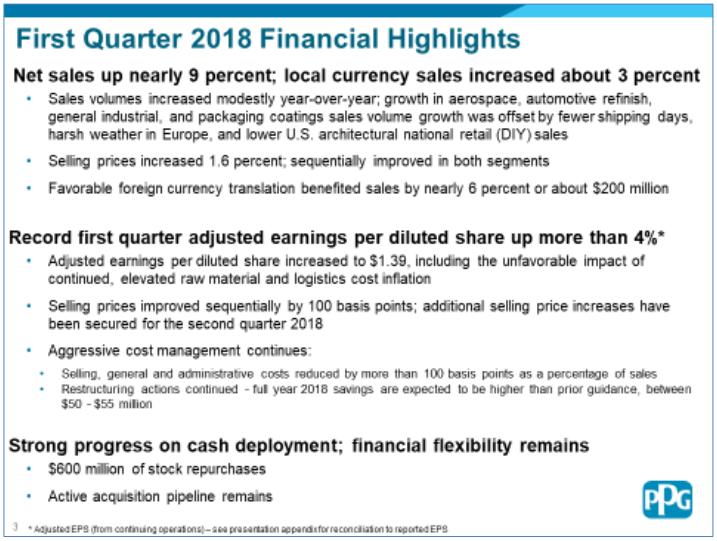
PPG Industries, Inc. First 2018 Financial Results

Earnings Brief – April 19, 2018

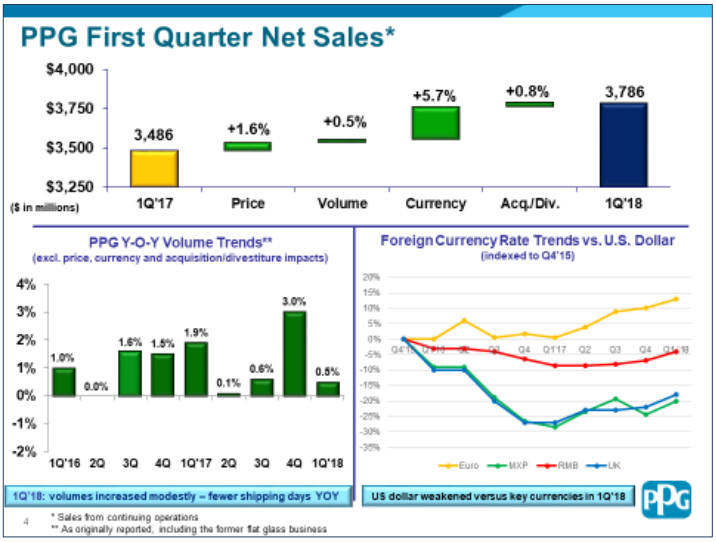


First Quarter Financial Highlights

PPG first quarter net sales from continuing operations were approximately $3.8 billion, increasing nearly 9 percent versus the prior year. Net sales in local currencies grew by about 3 percent year-over-year, aided by more than 2 percent of organic sales growth. Aggregate selling prices improved by 1.6 percent, marking the fourth consecutive quarter of improvement over the previous sequential quarter. Acquisition-related sales added less than 1 percent. Additional detailed sales comparisons for each reporting segment are included on subsequent presentation slides.

Reported earnings per diluted share from continuing operations was $1.38. Adjusted earnings per diluted share from continuing operations were $1.39, more than a 4 percent increase versus the prior year. The earnings increase was achieved despite elevated raw material and logistics costs, including the impacts from Chinese environmental enforcement-related production curtailments within the chemical supply chain and higher oil prices. The increase in solvent-based raw materials and epoxy resins was the most acute, with epoxy pricing up more than 40 percent at the start of the quarter on a year-over-year basis. The cost increases were partially offset by continued cost management, including lower manufacturing costs and lower selling, general and administrative expenses as a percentage of sales.

Earnings accretive cash deployment continued in the first quarter, including the share repurchases totaling $600 million, which represented nearly 5.2 million shares or about 2 percent of total outstanding shares.

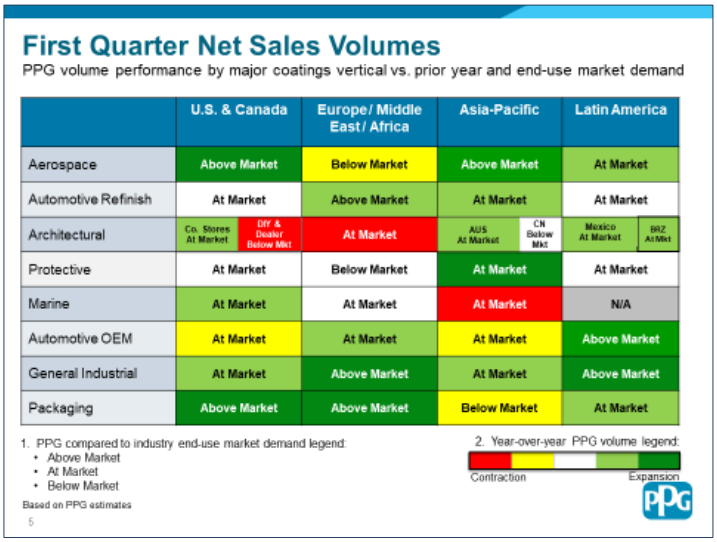


PPG First Quarter Net Sales

PPG first quarter net sales of approximately $3.8 billion increased by nearly 9 percent, or $300 million year-over-year. Aggregate sales volume growth was 0.5 percent and local currency sales increased by nearly 3 percent.

Aggregate selling prices advanced 1.6 percent, which is 100 basis points higher than the previous sequential quarter, with the largest improvement in the Industrial Coatings segment. Selling price initiatives continued with several businesses announcing increases in the first quarter that will be executed in the succeeding quarters. Aggregate sales volumes were affected by fewer shipping days than the

first quarter 2017, harsh weather conditions in Europe, and lower U.S. architectural national retail (DIY) sales. Acquisition-related sales added less than 1 percent, or about $30 million, to sales stemming mostly from The Crown Group acquisition. The weakening of the U.S. dollar, especially against the euro, Chinese yuan, U.K. pound, and Mexican peso, resulted in favorable foreign currency translation of nearly 6 percent, or over $200 million. A slightly lower favorable impact is expected in the second quarter based on current foreign exchange rates. Additional details on the sales volume results by region and business unit are included later in the presentation materials.



First Quarter Net Sales Volumes

PPG volume performance by major coatings vertical vs. prior year and end-use market demand

	U.S. & Canada	Europe/ Middle East/ Africa	Asia-Pacific	Latin America
Aerospace	Above Market	Below Market	Above Market	At Market
Automotive Refinish	At Market	Above Market	At Market	At Market
Architectural	Co. Stores At Market; Dlr & Dealer Below Mkt	At Market	AUS At Market; CN Below Mkt	Mexico At Market; BRZ At Mkt
Protective	At Market	Below Market	At Market	At Market
Marine	At Market	At Market	At Market	N/A
Automotive OEM	At Market	At Market	At Market	Above Market
General Industrial	At Market	Above Market	At Market	Above Market
Packaging	Above Market	Above Market	Below Market	At Market

1. PPG compared to industry end-use market demand legend:
   - Above Market
   - At Market
   - Below Market

Based on PPG estimates

2. Year-over-year PPG volume legend:

Contraction — Expansion

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First Quarter Net Sales Volume

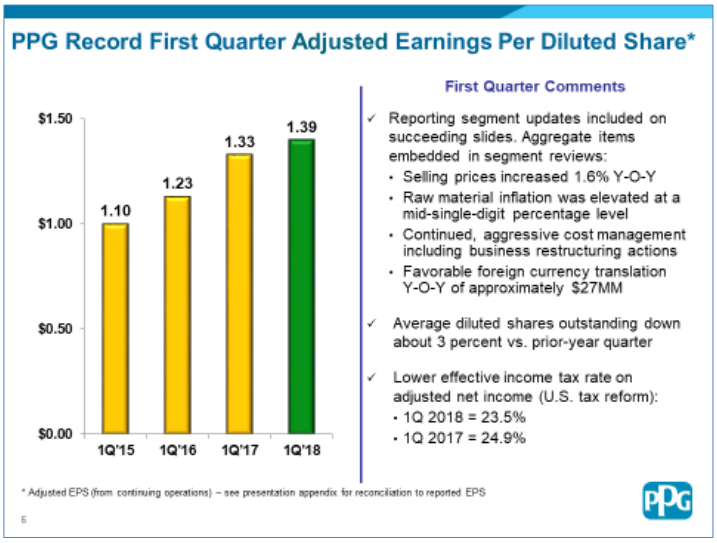
Aggregate global sales volumes grew by less than 1 percent in the first quarter of 2018. Sales volumes were impacted by fewer shipping, primarily effecting the distribution businesses, and a focus on raising selling prices which resulted in some marginal volume loss.

In the U.S. and Canada region, sales volumes were in-line with the prior year. Aerospace coatings and packaging coatings had above-market sales volume performance driven by customers' continuing adoption of PPG's technology advantaged products. Aerospace sales grew across all major platforms. General industrial coatings and architectural company-owned stores sales volumes increased by mid-single-digit percentages. Lower volumes in U.S. architectural coatings in the DIY and independent dealer channels offset these gains. The automotive refinish coatings business had low-single-digit percentage organic sales growth despite slightly lower year-over-year industry collision claims. Automotive OEM coatings sales volume declined a low-single-digit percentage, in-line with the regional market.

Sales volumes were modestly lower in the Europe, Middle East, and Africa (EMEA) region. Strong sales volume growth in general industrial coatings, automotive refinish coatings, automotive OEM coatings, and packaging coatings was offset by a mid-single-digit percentage decrease in architectural coatings. Architectural coatings sales volumes were impacted by fewer shipping days and harsh weather conditions across most of the region which affected the ability to complete exterior paint projects, and softening industry demand in the U.K. Sales volumes in the protective and marine coatings business were lower due to project delays.

In Asia-Pacific, sales volumes were in-line with prior year as growth in aerospace, automotive refinish, general industrial and protective coatings was offset by moderating marine, automotive OEM, and packaging coatings declines. From a country and sub-region perspective, sales volumes grew in China at a more moderate pace as we experienced softer demand in China as certain customers delayed their restart following the Chinese New Year holiday. We expect economic activity in China to increase in the second quarter. Sales volumes in India increased by a mid-teen-digit percentage with solid, broad-based growth, while Korea volumes declined due to continuing soft but moderating marine shipbuilding activity.

Sales volumes expanded in Latin America by a high-single-digit percentage versus the prior year led by Automotive OEM, general industrial coatings and architectural coatings. PPG automotive OEM coatings continued to perform at above-market levels driven by new business secured in 2017. Within the region, sales volumes expanded in Mexico, Central America and South America.



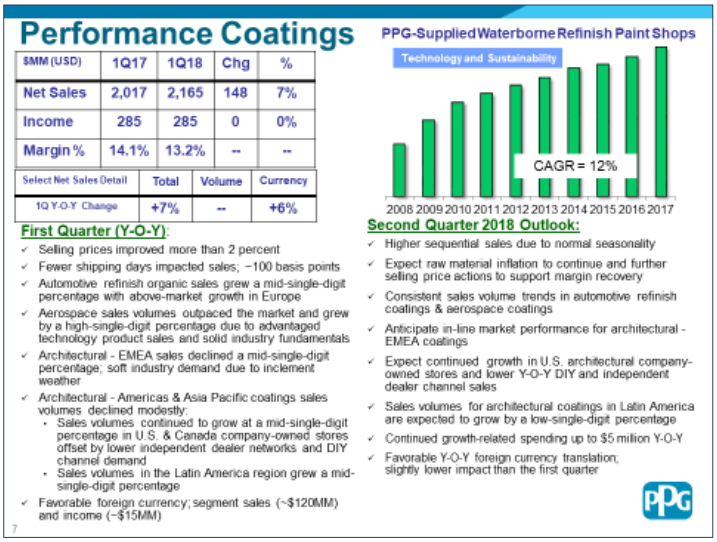
PPG Adjusted Earnings Per Diluted Share

First quarter 2018 adjusted earnings per diluted share from continuing operations of $1.39 was an increase of 6 cents, or more than 4 percent, over the prior year. Financial results from each reportable business segment are provided below and in other presentation materials. The key factors impacting earnings per diluted share growth were:

- Selling price increases aggregating 1.6 percent were implemented in most businesses partially offsetting intensified mid-single-digit percentage raw material cost inflation. Additional selling price increases have been announced or implemented that are expected to benefit the second quarter 2018.
- The Company continued to manage all costs, including executing its previously approved business restructuring program. In the quarter, the Company lowered year-over-year selling, general, and administrative costs by more than 100 basis points as a percentage of sales. Restructuring savings in 2018 are expected to provide cost savings between $50 million and $55 million, higher than expected at the outset of the year.
- U.S. dollar weakness resulted in favorable foreign currency translation primarily due to the euro, U.K. pound, Mexican peso and Chinese yuan.
- During the quarter, the company repurchased $600 million of stock that positively contributed to earnings per share. The average number of diluted shares outstanding decreased approximately 3 percent year-over-year.

First quarter corporate expenses were lower year-over-year driven mostly by lower pension and other post-retirement benefit costs. These savings were largely related to actions taken in the past few years focused on structurally lowering these costs. Corporate expenses are now expected to total between $175 and $190 million for the full year.

The reported first quarter effective tax rate was 23.5 percent, decreasing from 24.9 percent in the prior year. The lower current quarter tax rate is mostly attributable to the new U.S. Tax Cuts and Jobs Act legislation. The Company anticipates its full year 2018 adjusted effective tax rate on ongoing earnings from continuing operations will be between 23 percent and 24 percent.



A detailed reconciliation of the adjusted first quarter earnings per diluted share and adjusted tax rate figures is included in the presentation materials appendix.

Performance Coatings

First quarter net sales for the Performance Coatings segment were about $2.2 billion, up $148 million, or more than 7 percent, versus the prior year, and included favorable foreign currency translation of about $120 million, or about 6 percent. Sales in local currencies were up nearly 2 percent year-over-year led by selling

price increases of more than 2 percent. Segment sales volumes were slightly lower versus the prior year, with growth in Asia-Pacific and Latin America and volume declines in Europe. Segment sales in the U.S. and Canada were flat year-over-year.

First quarter segment income was $285 million, equal to the prior year first quarter, including a favorable impact from foreign currency translation of $15 million. Segment income in local currency decreased by about 5 percent, primarily due to higher raw material cost inflation, lower sales volumes in the U.S. architectural DIY channel and in architectural coatings EMEA, which was partially offset by higher selling prices and operational cost savings.

From a business unit perspective, automotive refinish coatings organic sales grew by a mid-single-digit percentage year-over-year, led by above-market performance in Europe, as customers adopted PPG's industry leading technologies. We expect these general trends to continue in the second quarter.

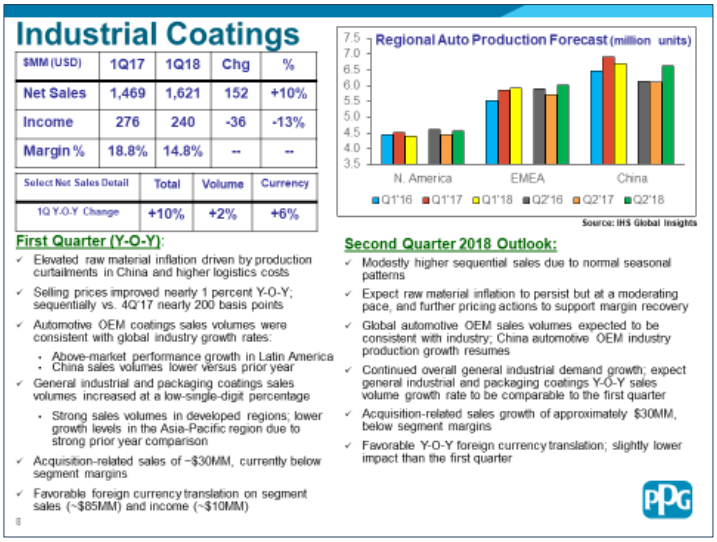
Aerospace coatings sales volumes grew by a high-single-digit percentage, including above-market volume growth in the U.S. and Asia. Strong growth was supported by positive industry demand fundamentals and market outperformance in the U.S. supported by technology advantaged products. Similar trends are anticipated in the second quarter 2018.

Architectural coatings - EMEA sales volumes declined by mid-single-digit percentage year-over-year. Sales volumes were impacted by harsh weather, which caused store closures during the quarter in a few countries, and fewer shipping days compared to the first quarter 2017 due to the timing of the Easter holiday. The business continues to work on implementing selling price increases. Looking ahead, we expect improved sequential sales volume in the second quarter driven by one additional shipping day offsetting the fewer ship days in the first quarter, along with normal business seasonality. Industry demand in the U.K. will likely continue to be impacted by consumer apprehension surrounding the "Brexit" process.

Architectural coatings Americas and Asia Pacific sales volumes were slightly lower versus the prior year. Sales volumes were positive year-over-year in the U.S. and Canada company-owned store network, as well as in Mexico, Central America, Australia, and Brazil. Sales volumes increased by a mid-single-digit percentage in U.S. and Canada company-owned stores, and marked the 9th consecutive quarterly improvement. This increase was more than offset by lower independent dealer network and DIY channel declines, including the effect from a large customer assortment change. The company will launch its Olympic® stain brand at the THE HOME DEPOT® during the second quarter; this incremental sales volume is not expected to fully offset declines in the overall DIY and independent dealer network.

Protective and marine coatings sales volumes were slightly higher; protective sales volumes were up driven by North America and China growth, offset by moderating decreases in marine. The business is expected to perform in-line with the market in the second quarter. The positive trend of improved ship-building orders placed to the shipyards in Asia continued in the first quarter, but it will be 12 –to- 24 months until these orders lead to increased paint consumption.

Looking ahead, we expect raw material costs to remain elevated in the second-quarter 2018 at similar levels experienced in the first quarter. There will be no material benefit from acquisition-related sales in the segment, and based on current exchange rates, foreign currency translation is expected to have a slightly lower sequential favorable impact on segment sales and income in the second quarter 2018 compared to the first quarter. We anticipate additional year-over-year growth-related spending of up to $5 million in the second quarter.



Industrial Coatings

First quarter net sales for the Industrial Coatings segment were more than $1.6 billion, up about $150 million or about 10 percent year-over-year, including favorable foreign currency translation of nearly 6 percent, or more than $80 million. Segment sales volumes grew by 1.5 percent, and acquisition-related sales added less than 1 percent, or about $30 million. Selling prices increased by nearly 1 percent versus the first quarter 2017 and 200 basis points sequentially versus the fourth quarter 2017.

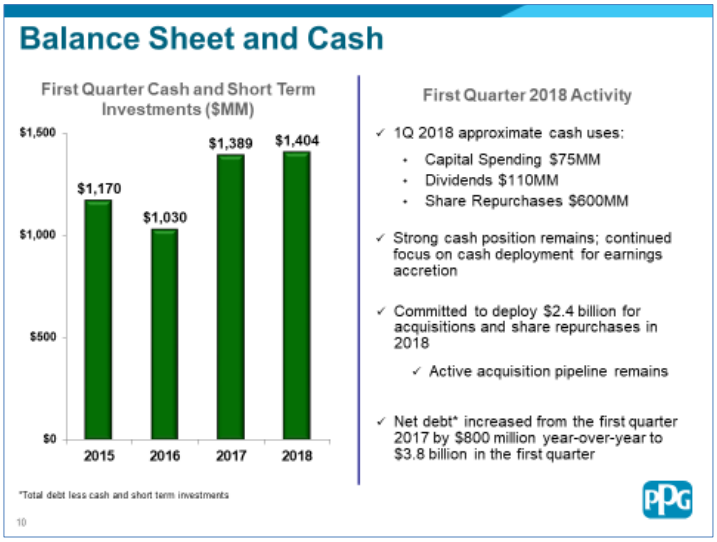
Segment income of nearly $240 million was down $36 million, or about 13 percent year-over-year, including favorable foreign currency translation of approximately $10 million, primarily related to the Chinese yuan, the euro and the Mexican peso. Segment income benefited from improving selling prices and lower manufacturing costs, which were more than offset by elevated raw material costs and higher logistics costs.

From a business unit perspective, sales volumes were flat in the automotive OEM coatings business versus the prior year, consistent with the overall global industry growth rate. PPG's sales volume growth was strongest in Mexico and South America. Global automotive industry growth is expected to improve in the second quarter. In particular, industry demand is projected to increase at a high-single-digit percentage in China, which is the world's largest auto production base.

PPG's general industrial coatings and specialty coatings and materials businesses sales volumes continued to grow and outpace global industrial production rates for the 9th consecutive quarter. Sales volumes were positive in each major region, led by the U.S. and Canada, and were driven by strong end-market demand for heavy-duty equipment and electronics materials. Selling prices also improved. Acquisition-related sales from The Crown Group, acquired in October 2017, added approximately $30 million in sales. Overall growth in this business moderated from the past few quarters reflecting comparisons to strong growth in the previous year. We anticipate continued favorable general industrial demand growth trends in aggregate.

Packaging coatings organic sales volumes were up a mid-single-digit percentage versus the prior year due to ongoing adoption of PPG's new can coating technologies. The business successfully collaborated with customers to implement selling price initiatives in the quarter. Sales volumes in the developed regions grew a mid-single-digit percentage, while in the Asia-Pacific region volumes decreased modestly stemming from lower demand in the region. We anticipate sales volume growth will continue due to the ongoing industry conversion to BPA non-intent interior can coatings with PPG's year-over-year aggregate growth rates continuing at an above-market level in 2018.

Looking ahead, we anticipate that the raw material inflationary environment will continue, however the pace of increases is expected to moderate. Based on current exchange rates, foreign currency translation is expected to have a slightly lower sequential favorable impact on segment sales and income in the second quarter 2018 compared to the first quarter. The company will continue to prioritize selling price increases and operating margin recovery.



Balance Sheet and Cash

PPG ended the first quarter with about $1.4 billion in cash and short-term investments.

Approximate uses of cash for the first quarter were as follows:

- Capital expenditures were about $75 million in the quarter. We continue to anticipate capital spending to be in the range of 2.5 -to- 3.0 percent of sales in 2018.

- Dividends paid were $112 million in the first quarter.

- PPG stock repurchases totaled approximately $600 million in the first quarter. The company has about $3.0 billion remaining under its current share repurchase authorizations as of the end of the first quarter.

The company plans to continue its share repurchase program in the second quarter 2018 and, as part of our previously communicated target to deploy $3.5 billion in 2017 and 2018 combined, is committed to deploying a minimum of $2.4 billion during 2018 on share repurchases and acquisitions. The company's acquisition pipeline remains active. The company continues to have excellent financial flexibility with cash and short-term investments of about $1.4 billion at the end of the first quarter.

Additional Materials and Appendix

Thank you for your interest in PPG Industries, Inc.

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Adjusted EPS Reconciliation

1st Quarter Reporting Period

	Continuing Operations		Discontinued Operations		Total PPG	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
First Quarter 2018						
Net Income Attributable to PPG as Reported	$ 347	$ 1.38	$ 6	$ 0.02	$ 353	$ 1.40
Costs related to a customer assortment change	3	0.01	–	–	3	0.01
Adjusted Net Income Attributable to PPG	$ 350	$ 1.39	$ 6	$ 0.02	$ 356	$ 1.41
First Quarter 2017						
Net Income Attributable to PPG as Reported	$ 328	$ 1.27	$ 6	$ 0.02	$ 334	$ 1.29
Transaction-related costs	3	0.01	–	–	3	0.01
Pension settlement charge	14	0.05	–	–	14	0.01
Adjusted Net Income Attributable to PPG	$ 345	$ 1.33	$ 6	$ 0.02	$ 351	$ 1.35
First Quarter 2016						
Net Income Attributable to PPG as Reported	$ 328	$ 1.22	$ 19	$ 0.07	$ 347	$ 1.29
Transaction-related costs	1	0.01	–	–	1	0.01
Asset write-down	–	–	3	0.01	3	0.01
Adjusted Net Income Attributable to PPG	$ 329	$ 1.23	$ 22	$ 0.08	$ 351	$ 1.31
First Quarter 2015						
Net Income Attributable to PPG as Reported	$ 300	$ 1.08	$ 22	$ 0.08	$ 322	$ 1.17
Transaction-related costs	3	0.01	3	0.01	6	0.02
Adjusted Net Income Attributable to PPG	$ 303	$ 1.10	$ 25	$ 0.09	$ 328	$ 1.19

[1] Amounts in Millions of USD except EPS

Regulation G Reconciliation

Three Months Ended March 31, 2018	Income Before Income Taxes	Tax Expense	Effective Tax Rate
Effective tax rate, continuing operations	$462	$109	23.5%
Costs related to a customer assortment change	4	1	24.3%
Adjusted effective tax rate, continuing operations	$466	$110	23.5%

Three Months Ended March 31, 2017	Income Before Income Taxes	Tax Expense	Effective Tax Rate
Effective tax rate, continuing operations	$440	$107	24.3%
Transaction-related costs	4	1	37.9%
Pension settlement charges	22	8	37.9%
Adjusted effective tax rate, continuing operations	$466	$116	24.9%

[2] Amounts in Millions of USD

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. This presentation contains forward-looking statements that reflect the Company's current views with respect to future events and financial performance. You can identify forward-looking statements by the fact that they do not relate strictly to current or historic facts. Forward-looking statements are identified by the use of the words "aim," "believe," "expect," "anticipate," "intend," "estimate," "project," "outlook," "forecast" and other expressions that indicate future events and trends. Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward looking statement, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our reports to the Securities and Exchange Commission. Also, note the following cautionary statements:

Many factors could cause actual results to differ materially from the Company's forward-looking statements. 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 achieve selling price increases, the ability to recover margins, the ability to maintain favorable supplier relationships and arrangements, the timing of and the 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. However, it is not possible to predict or identify all such factors. Consequently, while the list of factors presented here and under Item 1A of PPG's 2017 Form 10-K 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 the 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, other factors set forth in Item 1A of PPG's 2017 Form 10-K and similar risks, any of which could have a material adverse effect on the Company's consolidated financial condition, results of operations or liquidity.

All of this information speaks only as of April 19, 2018, 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.