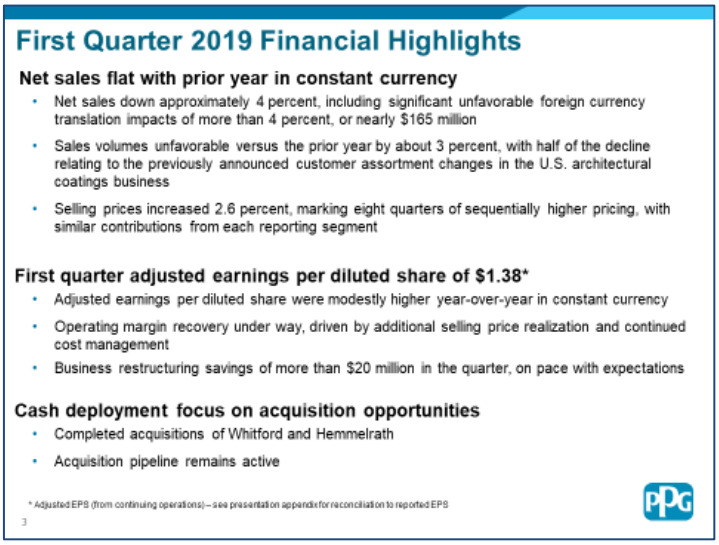
PPG Industries, Inc. First Quarter 2019 Financial Results

Earnings Brief – April 18, 2019



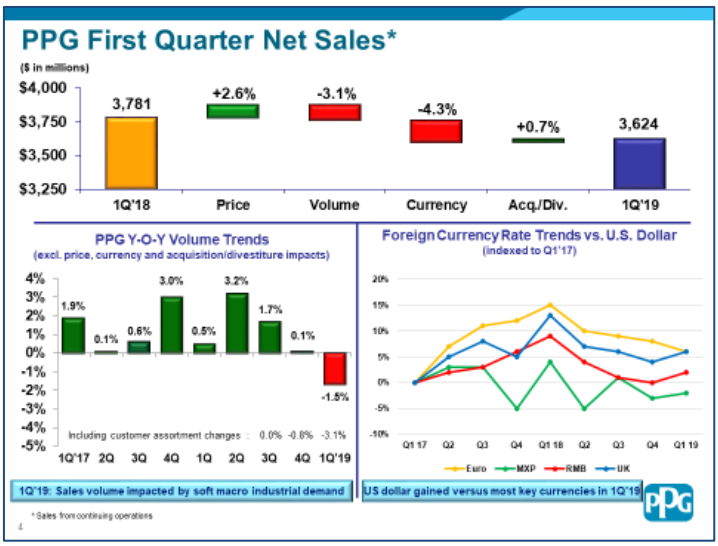
First Quarter Financial Highlights

PPG first quarter net sales from continuing operations were approximately $3.6 billion, down about 4 percent versus the prior year. Net sales in local currencies were flat versus the prior year, aided by improved selling prices of 2.6 percent. More detailed sales comparisons for the company and each reporting segment are included on subsequent presentation slides.

Reported earnings per diluted share from continuing operations were $1.31. Adjusted earnings per diluted share from continuing operations were $1.38 which is slightly lower than the first quarter 2018. EPS was impacted by lower global industrial production and significant foreign exchange translation headwinds. In addition, higher year-over-year raw material costs, mostly related to carry-forward inflation, and logistics costs pressured earnings. Positively impacting earnings were higher selling prices, savings of more than $20 million from previously announced restructuring actions and continued discretionary cost management. The unfavorable foreign exchange translation totaled about $20 million and resulted from strengthening of the U.S. dollar compared to the euro, Mexican peso, Chinese RMB and several emerging region currencies in the first quarter. Adjusted earnings per diluted share were modestly higher, excluding the impact of currency translation.

The first quarter adjusted effective tax rate was about 24 percent, which is higher than the first quarter of 2018, which was about 21 percent.

Earnings-accretive cash deployment continued in the first quarter, with the completion of the Whitford Worldwide Company acquisition on March 1. Whitford is a global manufacturer that specializes in low-friction and nonstick coatings for industrial applications and consumer products. In addition, on April 16 the acquisition of Hemmelrath, an automotive coatings manufacturer, was completed.



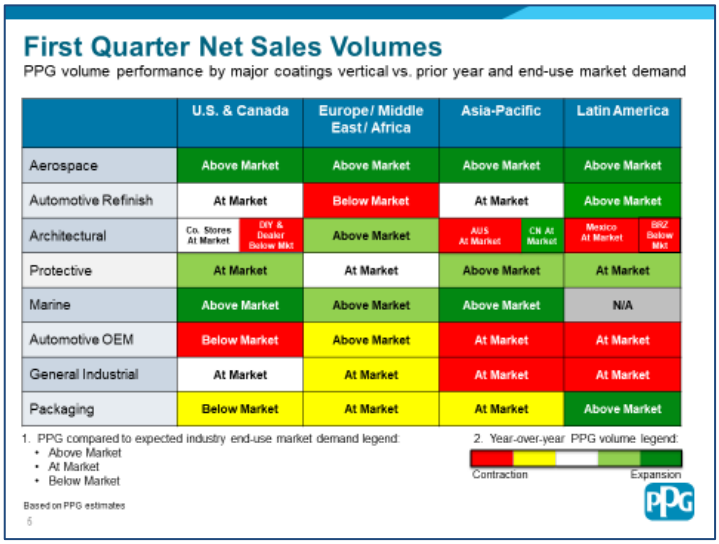
PPG First Quarter Net Sales

PPG first quarter net sales of $3.6 billion were down by $157 million year-over-year, including unfavorable foreign currency translation of approximately $165 million, or more than 4 percent. Excluding the unfavorable impact from the previously announced customer assortment changes in the U.S. architectural coatings business, constant currency net sales growth calculated to nearly 2 percent.

Aggregate selling prices increased by 2.6 percent year-over-year, with solid contributions from both reporting segments. This marked the

eighth consecutive quarter of improvement over the previous sequential quarter. Additional selling price initiatives continue. Acquisition-related sales added about $25 million, including SEM and a partial quarter of Whitford.

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	Above Market	Above Market	Above Market
Automotive Refinish	At Market	Below Market	At Market	Above Market
Architectural	Co. Stores At Market; DIY & Dealer Below Mkt	Above Market	AUS At Market; CN At Market	Mexico At Market; BRZ Below Mkt
Protective	At Market	At Market	Above Market	At Market
Marine	Above Market	Above Market	Above Market	N/A
Automotive OEM	Below Market	Above Market	At Market	At Market
General Industrial	At Market	At Market	At Market	At Market
Packaging	Below Market	At Market	At Market	Above Market

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

2. Year-over-year PPG volume legend: Contraction – Expansion

Based on PPG estimates

First Quarter Net Sales Volume

Aggregate global sales volumes were down approximately 3 percent in the first quarter of 2019. About half of the decrease relates to the unfavorable impact from the previously announced customer assortment changes in the U.S. architectural coatings business.

In the U.S. and Canada region, sales volumes were down by a low-single-digit percentage excluding the unfavorable impact from the architectural coatings customer assortment changes. Aerospace coatings and the protective and marine coatings businesses had above-market sales volume performance. Same-store sales for architectural coatings company-owned stores increased by a low-single-digit percentage. Lower sales volumes in the U.S. and Canada architectural coatings national retail do-it-for-yourself (DIY) and independent dealer channels and the automotive original equipment manufacturer (auto OEM) coatings business more than offset these gains. Sales volumes in auto OEM were lower than prior year due to certain customer production curtailments in response to lower industry demand and overall customer mix.

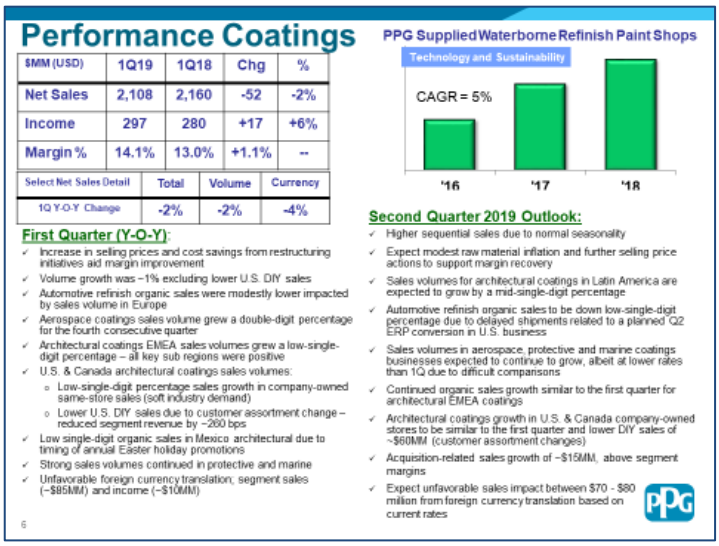
Sales volumes were flat in the Europe, Middle East, and Africa (EMEA) region. Strong sales volume growth in the aerospace and protective and marine coatings businesses was offset by lower sales volumes in auto OEM, refinish, general industrial, and packaging coatings. Sales volumes grew a low-single-digit percentage in architectural EMEA coatings led by continued solid growth from the Northern and Eastern European countries. Auto OEM sales volumes were down a mid-single-digit percentage, a smaller decline versus the industry production builds for the quarter. We expect automotive industry builds to decline at similar levels in the second quarter 2019 compared to the prior year quarter.

As expected, industrial demand continued to be soft in China during the first quarter. This contributed to sales volumes in Asia-Pacific declining by a mid-single digit percentage year-over-year. Strong sales volumes in the aerospace and protective and marine coatings businesses were offset by sharp, mid-teen-percentage declines in auto OEM matching the softness in industry auto production rates for the quarter. In addition, general industrial and packaging coatings volumes were lower as a result of the soft industrial production demand.

Sales volumes were lower in Latin America by a mid-single-digit percentage versus the prior year. The lower sales volumes were primarily driven by declines in sales in Mexico stemming from softer automotive end-market demand and lower sales at PPG-Comex. The timing of the Easter holiday promotion impacted PPG-Comex's sales volume comparison to the prior year. Sales volume comparisons versus the prior year are expected to fully recover in the second quarter.

Looking ahead, we expect overall PPG sales volumes to be lower in the second quarter compared to prior year. Net positive sales volumes are expected in the performance coatings segment, excluding the prior U.S. architectural coatings customer assortment changes. Sales volumes in the industrial segment are expected to remain negative year-over-year, reflecting lower automotive OEM and general industrial

coatings demand. Overall China demand is anticipated to improve beginning in the second half of 2019, which, along with easier year-over-year comparisons, will provide opportunities for better sales volume growth.



Performance Coatings

First quarter net sales for the Performance Coatings segment were about $2.1 billion, down about 2 percent versus the prior year. Selling prices increased by nearly 3 percent. Segment sales volumes were down about 2 percent. Excluding the unfavorable impact from the previously announced customer assortment changes in the U.S. architectural coatings business, sales volumes grew about 1 percent. Sales volumes grew in both Europe and Asia. Segment sales were negatively impacted by unfavorable foreign currency translation of about $85 million, or nearly 4 percent.

Segment income was $297 million, up about 6% compared to the first quarter 2018. Earnings were favorably impacted by higher selling prices and restructuring savings offset by lower sales volumes, raw material and logistics cost inflation and unfavorable foreign currency translation that totaled about $10 million.

From a business unit perspective, automotive refinish coatings organic sales were lower by a low-single-digit-percentage. Sales volumes were impacted by lower sales in Europe as customers purchased inventory in late 2018 ahead of a January 1 price increase. In the U.S., market demand was soft evidenced by lower collision claims in the first quarter. Globally, the automotive refinish business continues to win additional body shops and the integration of the SEM acquisition is underway and meeting near-term sales and profitability targets.

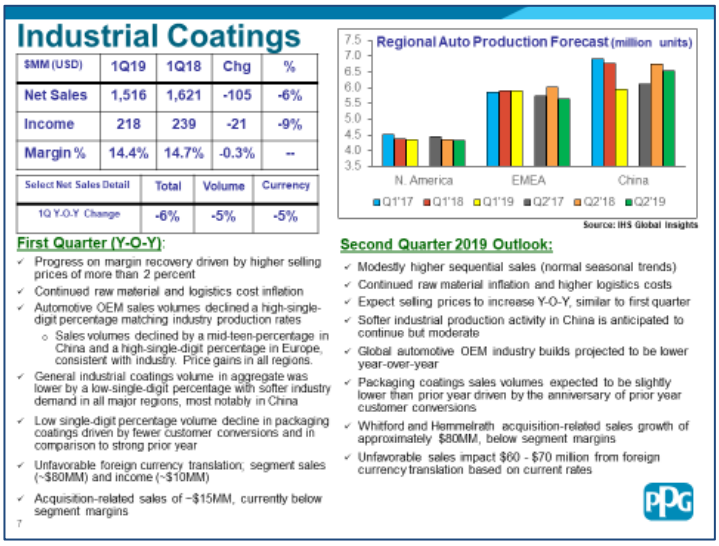
Aerospace coatings sales volumes grew by a low-teen-digit percentage, the fourth consecutive quarter of more than 10 percent sales volumes growth. Industry demand remained robust. Supported by technologically-advantaged products, the business experienced above-market volume growth and, consistent with prior quarters, sales grew across all major technology platforms. We expect continued strong performance in the second quarter, albeit with growth rates slightly below recent quarters as year-over-year comparisons become more challenging.

Year-over-year organic sales improved by a mid-single-digit percentage in architectural coatings EMEA, including volume growth in all key sub-regions. Overall, second quarter net sales are expected to be higher sequentially due to normal seasonal patterns. Sales volumes in the U.K. continued to trend modestly positive despite uncertainty surrounding the “BREXIT” process.

Architectural coatings Americas and Asia-Pacific organic sales volumes were lower by a high-single-digit percentage. The decrease was primarily driven by the customer assortment changes in the U.S. DIY channel which reduced first quarter sales by about $60 million, with a similar impact expected in the second quarter. The U.S. and Canada company-owned stores network grew same store sales by a low-single-digit percentage. Industry demand in the U.S. and Canada was muted with softer housing and construction fundamentals. The PPG-Comex architectural coatings businesses had slightly lower organic sales due to the timing of the annual Easter promotion. The PPG-Comex business opened approximately 25 new concessionaire locations in the first quarter.

Aggregate protective and marine coatings sales volumes increased by a low-teen-digit percentage driven by strong sales volumes in China and solid growth from all other major regions. Sales volume growth is expected to continue, though at lower levels in the second quarter 2019.

Looking ahead, raw material and logistics cost inflation is expected to continue in the second-quarter 2019, at more moderate levels and varied by category. Sales will be sequentially higher due to normal seasonality. Acquisition-related sales are forecast to add about $15 million of sales growth primarily from the SEM acquisition. Based on current exchange rates, foreign currency translation is expected to have an unfavorable impact on segment sales of about $80 million.



Industrial Coatings

First quarter net sales for the Industrial Coatings segment were more than $1.5 billion, down about $100 million or nearly 6 percent year-over-year. Segment sales volumes were lower by nearly 5 percent, impacted by softer global automotive industry builds and lower industrial production activity throughout the world. Selling prices increased versus the first quarter 2018, up more than 2 percent compared to prior year. Results were also impacted by unfavorable foreign currency translation of about $80 million, or about 5 percent.

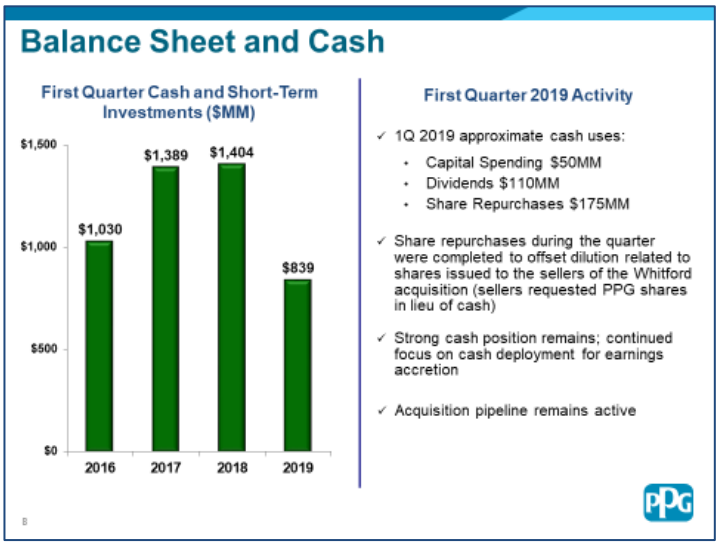
Segment income of $218 million was down about $20 million, or about 9 percent year-over-year, including unfavorable foreign currency translation of approximately $10 million, primarily related to the Chinese RMB and the euro. Segment income benefited from improving selling prices and restructuring savings, which were more than offset by lower sales volumes and cost inflation from raw materials and transportation.

From a business unit perspective, sales volumes were down a high-single-digit percentage in the auto OEM business versus the prior year, which was consistent with the overall global industry auto build rate. PPG's sales volume was lower than industry in the U.S. and Canada region due to certain customers having longer production curtailments, and better than industry in Europe due to customer mix. Partially offsetting the lower overall sales volumes were higher selling prices in all major regions. Global automotive industry demand is expected to remain soft in the second quarter for most regions, with greater volatility expected in China and Europe.

General industrial coatings and specialty coatings and materials sales volumes were down a low-single-digit percentage in the first quarter. Sales volumes were impacted by lower coil, general finishes, and automotive accessories end-use demand. Selling prices continued to increase during the quarter. Sales volumes are anticipated to be moderately lower in the second quarter due to expected soft industrial production activity. In addition, acquisition-related sales are forecast to add about $80 million of sales growth from Whitford and Hemmelrath.

Packaging coatings sales volumes were down a low-single-digit percentage versus the prior year, as year-over-year growth moderated due to more modest customer adoption rates for new technologies. Sales volumes increased in Latin America due to recent customer wins in the region. In the Asia Pacific region, sales volumes were slightly lower impacted by slower economic activity in China. We anticipate sales volume growth will continue to be modest due to lower customer adoption rates for new technologies and the anniversary of prior-year customer conversions.

Looking ahead, we expect that global industrial demand will remain subdued through the second quarter with inconsistencies by region. Sales volumes are expected to improve in the second half of the year. The carryover impact from 2018 cost inflation and unfavorable foreign currency translation will impact second quarter earnings. The company will continue to prioritize implementing selling price increases and operating margin recovery.



Balance Sheet and Cash

PPG ended the first quarter with about $840 million in cash and short-term investments.

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

- Capital expenditures were about $50 million in the quarter. The first quarter is historically a lower period for capital spending. We anticipate capital spending to up to 3 percent of sales in 2019.

- Dividends paid were about $110 million in the first quarter. PPG has paid annual dividends for 119 consecutive years, including 47 consecutive years of increased annual payouts.

- The Whitford acquisition was funded with both cash and PPG shares, at the request of the seller. Shares were repurchased during the quarter to offset any dilution related to issuance of shares for the acquisition. The Hemmelrath acquisition closed on April 16.

Second Quarter 2019 Financial Assumptions

Category	Projection
($ in millions unless stated otherwise)	
Raw material costs (Y-O-Y)	• Increasing at low-single-digit percentage
Unfavorable foreign currency (Y-O-Y) Based on current rates	• $130 - $150 Sales • $15 - $20 Segment expense
Corporate & legacy expenses (total)	• $45 - $50
Net interest expense (total)	• $27 - $30
Restructuring savings (incremental)	• $18 - $20
2Q tax rate	• 23% - 25%
Adjusted earnings per diluted share	• $1.76 - $1.86

Additional Materials and Appendix

Thank you for your interest in PPG Industries, Inc.

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Adjusted EPS Reconciliation

$ in millions, except EPS

	Continuing Operations		Discontinued Operations		Total PPG	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
First Quarter 2019						
Net Income Attributable to PPG as Reported	$ 312	$ 1.31	$ --	$ --	$ 312	$ 1.31
Acquisition-related costs	5	0.02	--	--	5	0.02
Environmental remediation charges	8	0.03	--	--	8	0.03
Costs associated with ongoing accounting investigations	3	0.01	--	--	3	0.01
Release of business restructuring reserves	(2)	(0.01)	--	--	(2)	(0.01)
Accelerated depreciation and other costs from restructuring actions	4	0.02	--	--	4	0.02
Adjusted Net Income Attributable to PPG	$ 330	$ 1.38	$ --	$ --	$ 330	$ 1.38
First Quarter 2018						
Net Income Attributable to PPG as Reported	$ 328	$ 1.31	$ 6	$ 0.02	$ 334	$ 1.33
Costs related to a customer assortment change	3	0.01	--	--	3	0.01
Environmental remediation charges	26	0.10	--	--	26	0.10
Adjusted Net Income Attributable to PPG	$ 357	$ 1.42	$ 6	$ 0.02	$ 363	$ 1.44

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, customer inventory levels, our ability to maintain favorable supplier relationships and arrangements, the timing of and the realization of anticipated cost savings from restructuring initiatives, the ability to identify additional cost savings opportunities, difficulties in integrating acquired businesses and achieving expected synergies therefrom, economic and political conditions in the markets we serve, 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, the unpredictability of existing and possible future litigation, including asbestos litigation, and governmental investigations. 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 2018 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 2018 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 18, 2019, 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.