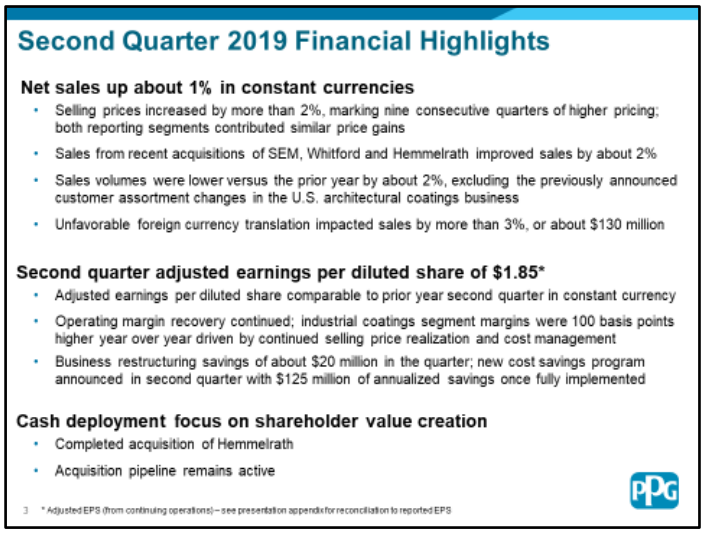
PPG Industries, Inc. Second Quarter 2019 Financial Results

Earnings Brief – July 18, 2019



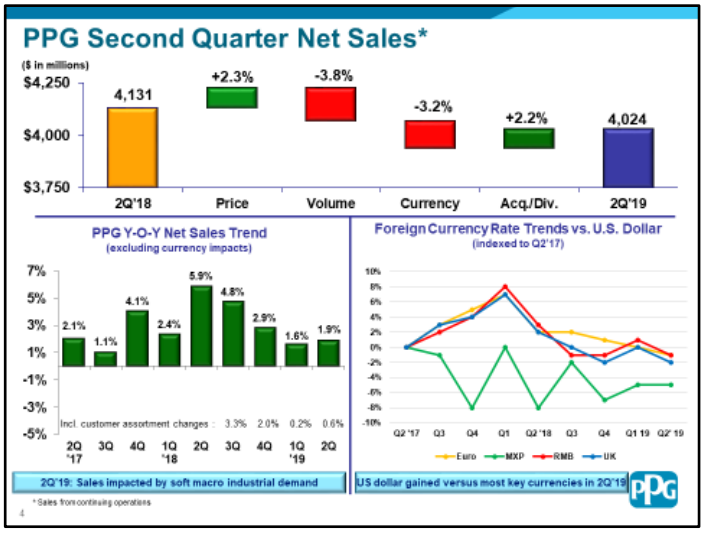
Second Quarter Financial Highlights

PPG second quarter net sales from continuing operations were approximately $4 billion, down nearly 3% versus the prior year. Net sales in local currencies were higher by about 1% versus the prior year, aided by improved selling prices of 2.3%. 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 $1.13. Adjusted earnings per diluted share from continuing operations were $1.85, which is slightly lower than the second quarter 2018. EPS was impacted by lower global industrial production; wetter than normal weather conditions in the U.S. and Europe, which impacted the architectural businesses; and unfavorable foreign currency translation. Positively impacting earnings were higher selling prices, savings of nearly $20 million from previously announced cost savings programs and continued discretionary cost management. The unfavorable foreign currency translation totaled about $20 million and resulted from strengthening of the U.S. dollar compared to the euro, Chinese RMB, British pound and several emerging region currencies in the second quarter. Adjusted earnings per diluted share were modestly higher year-over-year, excluding the impact of currency translation.

The second quarter adjusted effective tax rate was about 24%, which is higher than the second quarter of 2018, which was about 22%, due to favorable discrete items in the prior year quarter.

Earnings-accretive cash deployment continued in the second quarter with the completion in April of the Hemmelrath acquisition, an automotive original equipment manufacturer (OEM) coatings manufacturer.



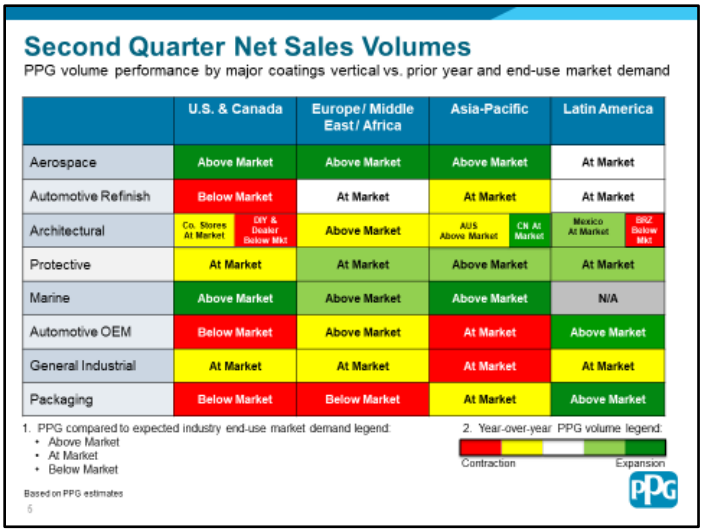
PPG Second Quarter Net Sales

PPG second quarter net sales of about $4 billion were down about $105 million year-over-year, including unfavorable foreign currency translation of approximately $130 million, or more than 3%. 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%.

Aggregate selling prices increased by 2.3% year-over-year, with solid contributions from both reportable segments. This marked the ninth consecutive quarter of price increases resulting in continued momentum in operating margin recovery.

Additional selling price initiatives are expected to continue in the second half of 2019. The acquisitions of SEM, Whitford, and Hemmelrath increased sales by more than 2%, or about $90 million. The U.S. dollar was weaker compared to prior year second quarter, especially against the euro, Chinese yuan, and U.K. pound, resulting in an unfavorable foreign currency translation impact of about 3 percent, or approximately $130 million. For the third quarter, an unfavorable foreign currency translation impact on net sales of between $30 million to $50 million is expected based on current exchange rates.

Additional details on the sales volume results by region and business unit are included later in the presentation materials.



Second Quarter Net Sales Volume

Aggregate global sales volumes were down nearly 4% in the second quarter of 2019. About $60 million of the decrease relates to 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 customer-assortment changes. Aerospace coatings and the specialty coatings and materials businesses had above-market sales volume performance. Same-store sales for architectural coatings company-owned stores were relatively flat compared to the prior year quarter. Lower sales volumes in the U.S. and Canada architectural coatings national retail do-it-for-yourself (DIY) and independent dealer channels, automotive refinish, and the automotive OEM coatings business more than offset these gains.

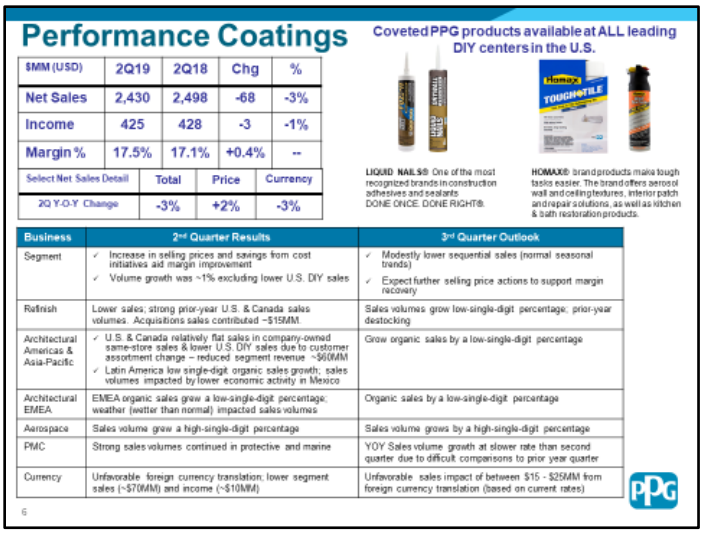
Sales volumes were comparatively flat in the Europe, Middle East, and Africa (EMEA) region compared to the prior year despite soft industrial production conditions in the region. Strong sales volume growth in the aerospace and marine coatings businesses was offset by lower sales volumes in automotive OEM, refinish, general industrial, and packaging coatings. Sales volumes were slightly lower in architectural EMEA coatings as demand was impacted by wetter than normal weather conditions in most countries. Auto OEM sales volumes were down a mid-single-digit percentage, a smaller decline in comparison to industry production for the quarter. We expect regional automotive industry production to be flat to slightly down in the third quarter 2019 compared to the prior year quarter. Businesses in Central Europe and Russia, where PPG has been investing in recent years, are delivering solid growth.

Industrial production was soft in China during the second 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 continued, sharp declines in auto OEM reflecting much slower auto industry production for the quarter. Auto OEM production rates declined more than originally projected at the outset of the quarter due to the unexpected early implementation of State VI emissions standards in several large Chinese cities. Higher automotive retail sales in the second quarter did reduce dealer inventory levels by quarter end. In addition, general industrial and packaging coatings volumes were lower as a result of the weaker industrial demand. In other key countries of the region, organic sales in Korea and Australia grew by a low-single-digit percentage while India experienced slightly negative organic sales growth. The Whitford and Hemmelrath acquisitions have added strong businesses in the region that is helping PPG expand our overall Asia presence.

In Latin America sales volumes were consistent versus the prior year. Sales volumes were aided by mid-single-digit percentage growth in automotive OEM and double-digit percentage growth in packaging

coatings offset by softer general industrial and automotive refinish coatings volumes. The positive impact of the timing of PPG-Comex's Easter holiday promotion was offset by generally lower Mexican economic activity. Industry demand in Mexico is expected to stay relatively muted until there is more certainty regarding economic policies. Sales volumes grew in South America led by high single-digit percentage growth in Brazil.

Looking ahead, overall PPG sales volumes trends are expected to be similar to those experienced in the second quarter excluding the U.S. DIY customer-assortment changes that reached their anniversary at the end of the quarter. Net positive sales volumes are expected in the Performance Coatings segment. Sales volumes in the Industrial Coatings segment are expected to remain negative year-over-year, reflecting lower automotive OEM and general industrial coatings demand. Overall PPG sales are expected to decline sequentially, versus the second quarter, due to normal seasonal patterns.



Performance Coatings

Second quarter net sales for the Performance Coatings segment were about $2.4 billion, down about 3% versus the prior year. Selling prices increased by more than 2%. Segment sales volumes were down about 3% which included an unfavorable impact of about $60 million from the previously announced customer-assortment changes in the U.S. architectural coatings business. Sales volumes grew in both Europe and Asia. Segment sales were impacted by unfavorable foreign currency translation of about $70 million, or nearly 3%.

Segment income was $425 million, relatively flat to the second quarter 2018. Earnings were favorably impacted by higher selling prices and cost savings, offset by the impact of lower net sales volumes along with unfavorable foreign currency translation that totaled about $10 million.

From a business unit perspective, automotive refinish coatings sales volumes were lower mostly driven by a difficult comparison to strong sales volumes in both the U.S. and Europe in the prior year second quarter. In the U.S., market demand continues to be soft, evidenced by lower collision claims in the second quarter. Higher selling prices in each major region partially offset the lower sales volumes. Improved year-over-year sales volumes are expected in the third quarter as the prior year included the unfavorable impact of PPG-specific customer inventory destocking. The SEM acquisition continues to be integrated into PPG and is performing well.

Aerospace coatings sales volumes grew by a high-single-digit percentage and are up over 10% for the first half of the year. Industry demand remained solid. 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 third quarter.

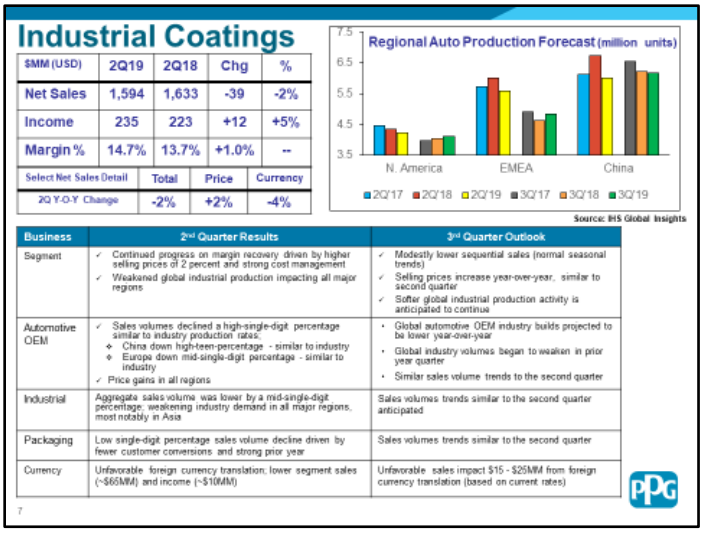
Year-over-year organic sales improved by a low-single-digit percentage in architectural coatings EMEA, driven by higher selling prices. Sales volumes were slightly down and mixed by country as several key countries experienced wetter than normal weather conditions. Overall, third quarter net sales are expected to be slightly lower sequentially due to normal seasonal patterns. While demand in the U.K. continues to be good, industry trends are being closely monitored as the level of uncertainty surrounding the "BREXIT" process continues.

Architectural coatings Americas and Asia-Pacific organic sales volumes were lower by a mid-single-digit percentage. The decrease was primarily driven by the customer assortment changes in the U.S. DIY

channel, which reduced second quarter sales by about $60 million. The U.S. and Canada company-owned stores network same store sales were relatively flat as wetter than normal weather patterns impacted activity levels. The PPG-Comex architectural coatings business had slightly higher organic sales. The PPG-Comex business opened 43 new concessionaire locations in the second quarter and has opened 69 locations year to date.

Aggregate protective and marine coatings organic sales volumes increased by a high-single-digit percentage driven by strong sales volumes in China and Europe. Sales activity is expected to stay elevated in the third quarter with more moderate year-over-year sales volume growth when compared to strong sales gains in the prior year.

Looking ahead, industry demand levels are expected to be similar to those experienced in the second quarter. Sales are anticipated to be modestly lower versus the second quarter 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 a modest unfavorable impact on segment sales of about $30 million.



Industrial Coatings

Second quarter net sales for the Industrial Coatings segment were nearly $1.6 billion, down about $40 million or more than 2% year over year. Segment sales volumes were lower by 5%, impacted by softer global automotive industry builds and lower industrial production activity globally. Selling prices increased versus the second quarter 2018, up 2% compared to prior year. Results were also impacted by unfavorable foreign currency translation of about $60 million, or nearly 4%.

Segment income of $235 million was up about $10 million, or about 5% 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 cost savings, which was partly offset by the impact of lower net sales volumes.

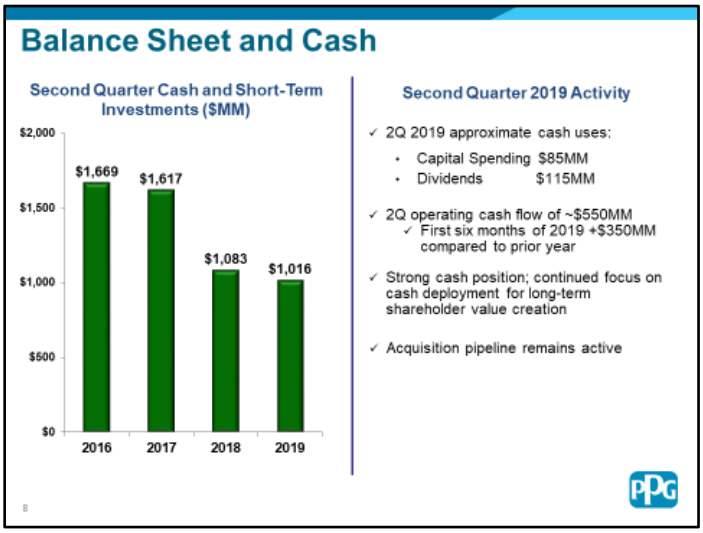
From a business unit perspective, net sales volumes were down a high-single-digit percentage in the auto OEM business versus the prior year, which was consistent with the overall global industry auto build rate. Automotive sales and production builds were weak in most key regions. PPG's sales volume was modestly lower than industry in the U.S. and Canada region, mostly due to customer mix. Sales volumes in the EMEA and Latin America region outpaced industry build rates due to recent share gains and favorable 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 third quarter in most regions, with greater volatility expected in China.

General industrial coatings sales volumes were down a mid-single-digit percentage in the second quarter. Lower industrial manufacturing in all major regions reflected a broad-based impact on demand in most sub-segments including coil, general finishes, appliances and transportation end-use markets. Selling prices continued to increase during the quarter. Year-over-year sales volumes trends are anticipated to be similar in the third quarter due to the expected continuation of weak industrial production.

Packaging coatings organic sales 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 continued to increase in Latin America due to recent customer wins in the region. In the Asia-Pacific region, sales volumes remained muted due to 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 third quarter, with inconsistencies by region. Year-over-year sales volume trends are expected to remain similar in the third quarter. The company will continue to prioritize implementing selling price increases and operating margin recovery. In addition, acquisition-related sales are forecast to add about $80 million of sales growth from Whitford and Hemmelrath.



Balance Sheet and Cash

PPG ended the second quarter with about $1 billion in cash and short-term investments.

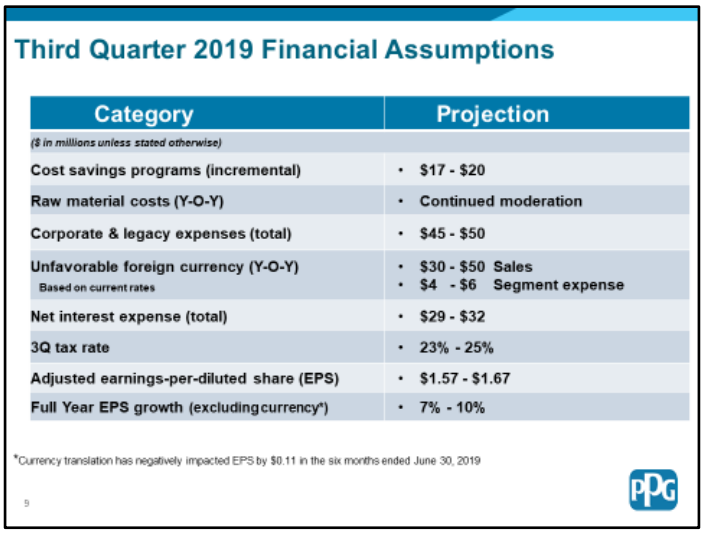
Approximate uses of cash for the second quarter were as follows:

- Capital expenditures were about $85 million in the quarter. Historically, the company has higher capital spending in the second half of the year. We anticipate capital spending of up to 3% of sales in 2019.

- Dividends paid were about $115 million in the second quarter. PPG has paid annual dividends for 119 consecutive years, including 47 consecutive years of increased annual payouts.

- Operating cash flow generated in first half of 2019 is up about $350 million compared to the same period in the prior year.

- The Hemmelrath acquisition closed on April 16.



Additional Materials and Appendix

Thank you for your interest in PPG Industries, Inc.

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Adjusted EPS Reconciliation

2nd Quarter Reporting Period

$ in millions, except EPS

	Continuing Operations		Discontinued Operations		Total PPG	
	Net Income	EPS	Net Income	EPS	Net Income	EPS
Second Quarter 2019						
Net Income Attributable to PPG, as Reported	$ 270	$ 1.13	$ 2	$ 0.01	$ 272	$ 1.14
Business restructuring, net	133	0.56	--	--	133	0.56
Costs associated with ongoing accounting investigations	2	0.01	--	--	2	0.01
Environmental remediation charges, net	23	0.10	--	--	23	0.10
Acquisition-related costs	8	0.03	--	--	8	0.03
Accelerated depreciation and other costs from restructuring actions	5	0.02	--	--	5	0.02
Adjusted Net Income Attributable to PPG	$ 441	$ 1.85	$ 2	$ 0.01	$ 443	$ 1.86
Second Quarter 2018						
Net Income Attributable to PPG, as Reported	$ 371	$ 1.51	$ --	$ --	$ 371	$ 1.51
Costs related to a customer assortment change	8	0.03	--	--	8	0.03
Business restructuring, net	63	0.25	--	--	63	0.25
Accelerated depreciation from restructuring actions	4	0.02	--	--	4	0.02
Costs associated with ongoing accounting investigations	7	0.03	--	--	7	0.03
Impairment of a non-manufacturing asset	7	0.03	--	--	7	0.03
Legacy legal settlement	8	0.03	--	--	8	0.03
Adjusted Net Income Attributable to PPG	$ 468	$ 1.90	$ --	$ --	$ 468	$ 1.90

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, the ability to maintain favorable supplier relationships and arrangements, the timing of realization of anticipated cost savings from cost savings programs, the ability to identify additional cost savings opportunities, 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, 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 in our amended Annual Report on 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 of this information speaks only as of July 18, 2019, and any distribution of this earnings brief 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.