PPG INDUSTRIES INC
Form 10-Q
July 20, 2018

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For Quarter Ended June 30, 2018
Commission File Number 1-1687

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

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of June 30, 2018, 242,018,104 shares of the Registrant's common stock, par value $1.66 2/3 per share, were outstanding.

EXPLANATORY NOTE

As described in additional detail in the Explanatory Note to its amended Annual Report on Form 10-K/A for the year ended December 31, 2017 (the “2017 Form 10-K/A”), PPG Industries, Inc. (together with its subsidiaries, the "Company" or "PPG") restated its audited consolidated financial statements for the years ended December 31, 2017 and 2016 and certain unaudited quarterly results related to the quarters ended December 31, 2016, March 31, 2017, June 30, 2017, September 30, 2017 and December 31, 2017, including the six months ended June 30, 2017, in its 2017 Form 10-K/A as a result of certain misstatements identified by the Company. The impact of the restatement on the Company's condensed consolidated financial statements included herein is further described in Note 2, "Restatement of Previously Reported Condensed Consolidated Quarterly Financial Statements."

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 As Restated | 2018 | 2017 As Restated |
| Net sales | $4,131 | $3,804 | $7,912 | $7,290 |
| Cost of sales, exclusive of depreciation and amortization | 2,379 | 2,083 | 4,560 | 3,985 |
| Selling, general and administrative | 945 | 876 | 1,851 | 1,751 |
| Depreciation | 91 | 81 | 178 | 160 |
| Amortization | 34 | 32 | 70 | 63 |
| Research and development, net | 114 | 112 | 226 | 221 |
| Interest expense | 31 | 26 | 57 | 51 |
| Interest income | (7) | (4) | (12) | (8) |
| Pension settlement charge | — | — | — | 22 |
| Business restructuring | 83 | — | 83 | — |
| Other charges | 6 | 8 | 47 | 33 |
| Other income | (24) | (69) | (48) | (93) |
| Income from continuing operations before income taxes | $479 | $659 | $900 | $1,105 |
| Income tax expense | 104 | 157 | 191 | 267 |
| Income from continuing operations | $375 | $502 | $709 | $838 |
| (Loss)/Income from discontinued operations, net of tax | — | (1) | 6 | 5 |
| Net income attributable to controlling and noncontrolling interests | $375 | $501 | $715 | $843 |
| Less: Net income attributable to noncontrolling interests | (4) | (5) | (10) | (10) |
| Net income (attributable to PPG) | $371 | $496 | $705 | $833 |
| Amounts attributable to PPG: | | | | |
| Income from continuing operations, net of tax | $371 | $497 | $699 | $828 |
| (Loss)/Income from discontinued operations, net of tax | — | (1) | 6 | 5 |
| Net income (attributable to PPG) | $371 | $496 | $705 | $833 |
| | | | | |
| Earnings per common share: | | | | |
| Income from continuing operations, net of tax | $1.51 | $1.93 | $2.83 | $3.22 |
| Income from discontinued operations, net of tax | — | — | 0.02 | 0.02 |
| Net income (attributable to PPG) | $1.51 | $1.93 | $2.85 | $3.24 |
| Earnings per common share – assuming dilution: | | | | |
| Income from continuing operations, net of tax | $1.51 | $1.92 | $2.81 | $3.19 |
| Income from discontinued operations, net of tax | — | — | 0.02 | 0.02 |
| Net income (attributable to PPG) | $1.51 | $1.92 | $2.83 | $3.21 |
| | | | | |
| Dividends per common share | $0.45 | $0.40 | $0.90 | $0.80 |

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

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

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2018 | 2017 As Restated | 2018 | 2017 As Restated |
| Net income attributable to the controlling and noncontrolling interests | $375 | $501 | $715 | $843 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Defined benefit pension and other postretirement benefits | 15 | (55) | (52) | (34) |
| Unrealized foreign currency translation adjustments | (297) | 82 | (174) | 361 |
| Derivative financial instruments | 2 | (4) | — | (17) |
| Other comprehensive (loss) income, net of tax | ($280) | $23 | ($226) | $310 |
| Total comprehensive income | $95 | $524 | $489 | $1,153 |
| Less: amounts attributable to noncontrolling interests: | | | | |
| Net income | (4) | (5) | (10) | (10) |
| Unrealized foreign currency translation adjustments | 10 | (6) | 8 | (13) |
| Comprehensive income attributable to PPG | $101 | $513 | $487 | $1,130 |

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

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PPG INDUSTRIES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheet (Unaudited)
($ in millions)

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $1,020 | $1,436 |
| Short-term investments | 63 | 55 |
| Receivables (less allowance for doubtful accounts of $23 and $25) | 3,438 | 2,903 |
| Inventories | 1,956 | 1,730 |
| Other | 402 | 353 |
| Total current assets | $6,879 | $6,477 |
| Property, plant and equipment (net of accumulated depreciation of $3,848 and $3,770) | 2,738 | 2,824 |
| Goodwill | 3,920 | 3,942 |
| Identifiable intangible assets, net | 1,986 | 2,045 |
| Deferred income taxes | 290 | 305 |
| Investments | 258 | 268 |
| Other assets | 723 | 677 |
| Total | $16,794 | $16,538 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $3,893 | $3,781 |
| Restructuring reserves | 132 | 102 |
| Short-term debt and current portion of long-term debt | 22 | 12 |
| Total current liabilities | $4,047 | $3,895 |
| Long-term debt | 5,048 | 4,134 |
| Accrued pensions | 674 | 729 |
| Other postretirement benefits | 688 | 699 |
| Deferred income taxes | 425 | 442 |
| Other liabilities | 929 | 967 |
| Total liabilities | $11,811 | $10,866 |
| Commitments and contingent liabilities (Note 17) | | |
| Shareholders' equity: | | |
| Common stock | 969 | 969 |
| Additional paid-in capital | 769 | 756 |
| Retained earnings | 17,725 | 17,140 |
| Treasury stock, at cost | (12,304) | (11,251) |
| Accumulated other comprehensive loss | (2,275) | (2,057) |
| Total PPG shareholders' equity | $4,884 | $5,557 |
| Noncontrolling interests | 99 | 115 |
| Total shareholders' equity | $4,983 | $5,672 |
| Total | $16,794 | $16,538 |

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

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

| ($ in millions) | Six Months Ended June 30 2018 | 2017 As Restated |
|---|---|---|
| Operating activities: | | |
| Net income attributable to controlling and noncontrolling interests | $715 | $843 |
| Less: Income from discontinued operations | (6) | (5) |
| Income from continuing operations | $709 | $838 |
| Adjustments to reconcile net income to cash from operations: | | |
| Depreciation and amortization | 248 | 223 |
| Pension expense | 20 | 34 |
| Pension settlement charge | — | 22 |
| Environmental remediation charges | 34 | — |
| Business restructuring charge | 83 | — |
| Impairment of a non-manufacturing asset | 9 | — |
| Stock-based compensation expense | 18 | 17 |
| Gain from the sale of a business | — | (25) |
| Equity affiliate loss, net of dividends | 6 | 3 |
| Deferred income tax benefit | (13) | (40) |
| Cash contributions to pension plans | (35) | (37) |
| Cash used for restructuring actions | (34) | (20) |
| Change in certain asset and liability accounts: | | |
| Receivables | (626) | (406) |
| Inventories | (270) | (185) |
| Other current assets | (5) | (49) |
| Accounts payable and accrued liabilities | 198 | 147 |
| Taxes and interest payable | (130) | (128) |
| Noncurrent assets and liabilities, net | (30) | (14) |
| Other | (51) | 52 |
| Cash from operating activities - continuing operations | $131 | $432 |
| Cash from operating activities - discontinued operations | — | 14 |
| Cash from operating activities | $131 | $446 |
| Investing activities: | | |
| Capital expenditures | (118) | (135) |
| Business acquisitions, net of cash balances acquired | (98) | (62) |
| Payments for acquisition of equity investment | — | (100) |
| Proceeds from the disposition of a business | — | 52 |
| Payments for the settlement of cross currency swap contracts | (17) | (34) |
| Proceeds from the settlement of cross currency swap and foreign currency contracts | 3 | 19 |
| Other | 13 | 2 |
| Cash used for investing activities - continuing operations | ($217) | ($258) |
| Cash used for investing activities - discontinued operations | — | (3) |
| Cash used for investing activities | ($217) | ($261) |
| Financing activities: | | |
| Net change in borrowing with maturities of three months or less | 11 | (3) |

| | | |
|---|---|---|
| Net payments on commercial paper and short-term debt | (1 ) | (61 ) |
| Proceeds from the issuance of debt, net of discounts and fees | 992 | — |
| Repayment of long-term debt | (3 ) | (8 ) |
| Purchase of treasury stock | (1,063 ) | (163 ) |
| Issuance of treasury stock | 10 | 20 |
| Dividends paid | (222 ) | (205 ) |
| Payments related to tax withholding on stock-based compensation awards | (13 ) | (20 ) |
| Other | (16 ) | (50 ) |
| Cash used for financing activities | ($305 ) | ($490 ) |
| Effect of currency exchange rate changes on cash and cash equivalents | (25 ) | 54 |
| Net decrease in cash and cash equivalents | ($416 ) | ($251 ) |
| Cash and cash equivalents, beginning of period | 1,436 | 1,820 |
| Cash and cash equivalents, end of period | $1,020 | $1,569 |
| | | |
| Supplemental disclosures of cash flow information: | | |
| Interest paid, net of amount capitalized | $53 | $52 |
| Taxes paid, net of refunds | $234 | $326 |

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

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

1. Basis of Presentation
The condensed consolidated financial statements included herein are unaudited and have been prepared following the requirements of the Securities and Exchange Committee (the "SEC") and accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim reporting. Under these rules, certain footnotes and other financial information that are normally required for annual financial statements can be condensed or omitted. These statements include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair presentation of the financial position of PPG as of June 30, 2018, and the results of its operations and cash flows for the three and six months ended June 30, 2018 and 2017. All intercompany balances and transactions have been eliminated. Material subsequent events are evaluated through the report issuance date and disclosed where applicable. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in PPG's 2017 Form 10-K/A .
Net sales, expenses, assets and liabilities can vary during each quarter of the year. Accordingly, the results of operations for the three and six months ended June 30, 2018 and the trends in these unaudited condensed consolidated financial statements may not necessarily be indicative of the results to be expected for the full year.
Certain prior period amounts have been reclassified to conform to the current period presentation and reflect the adoption of certain accounting standard updates, including the information presented for our reportable segments. These reclassifications had no impact on our previously reported net income, total assets, cash flows or shareholders' equity.
2. Restatement of Previously Reported Condensed Consolidated Quarterly Financial Statements
As described in additional detail in the Explanatory Note to its 2017 Form 10-K/A, the Company restated its audited consolidated financial statements for the years ended December 31, 2017 and 2016 and certain unaudited quarterly results related to the quarters ended December 31, 2016, March 31, 2017, June 30, 2017, September 30, 2017 and December 31, 2017, including the six months ended June 30, 2017.
On April 16, 2018, PPG received a report through the Company's internal reporting system alleging violations of the Company's accounting policies and procedures regarding the failure to accrue certain specified expenses in the first quarter of 2018. Based on the Company's initial review at that time, the Company identified approximately $1.4 million of expenses (including legal fees, property taxes and performance-based compensation) that should have been accrued in the first quarter of 2018 and that were then reflected in PPG's earnings for the quarter ended March 31, 2018, released on April 19, 2018. In addition, the report alleged that there may have been other unspecified expenses, potentially up to $5 million in the aggregate, that were improperly not accrued in the first quarter.
The Audit Committee of the Board of Directors (the "Audit Committee") oversaw an investigation of the matters set forth in the internal report, with the assistance of outside counsel and forensic accountants. The investigation identified the following items with respect to the quarter ended March 31, 2018, in addition to the approximately $1.4 million of expenses described above: (1) failure to record amortization expense in the amount of $1.4 million to correct for amortization of an intangible asset that was inadvertently not recorded over a three-year period and discovered in March 2018; (2) understatement of a health insurance accrued liability in the amount of $0.5 million; and (3) failure to record an adjustment increasing the value of inventory in PPG's Europe, Middle East and Africa region in the amount of $2.2 million due to inflation of raw materials costs which, when corrected, had a positive effect on income in the first quarter of 2018. These three items resulted in a net increase to income from continuing operations before income taxes of approximately $0.3 million.
The investigation also identified certain inadvertent errors with respect to the quarter ended March 31, 2018. Correction of such inadvertent errors, together with the matters discussed in the immediately preceding paragraph, resulted in a net decrease in income from continuing operations before income taxes of $5.7 million for the quarter ended March 31, 2018.
The investigation identified the following items with respect to the year ended December 31, 2017: (1) improper reclassifications of gains from income from discontinued operations to income from continuing operations in total

pre-tax amounts of $2.5 million in the quarter ended June 30, 2017 and $4.7 million in the quarter ended December 31, 2017; (2) improper shifting of pre-tax expenses between quarterly periods in 2017, including a total of $3.5 million in compensation expense recorded in the third and fourth quarters of 2017 that should have been recorded in the quarter ended June 30, 2017; an additional expense accrual for health care claims in the amount of $3.5 million recorded in

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the third quarter of 2017 that should have been recorded in the quarter ended June 30, 2017; and additional expense for paid vacation in the amount of $2.2 million recorded in the quarter ended December 31, 2017 that should have been recorded in the second and third quarters of 2017.

The investigation also identified an improper reduction in the payout assumption for certain performance-based restricted stock units that had the impact of recognizing a $6.8 million reduction in stock based compensation expense in the fourth quarter of 2016. In the first quarter of 2017, the payout assumption for these same performance-based restricted stock units was increased, resulting in $6.8 million of stock-based compensation expense in the first quarter of 2017 that would not have been recorded if the payout assumption had not been reduced in the fourth quarter of 2016.

On May 10, 2018, management, in consultation with the Audit Committee and the Company’s independent registered public accounting firm, PricewaterhouseCoopers LLP ("PwC"), concluded that the Company’s consolidated financial statements for the year ended December 31, 2017 included in the Company's originally filed 2017 Annual Report on Form 10-K and the related report of PwC, and for the quarterly and year-to-date periods in 2017, should no longer be relied upon because of certain misstatements contained in those financial statements.

On June 27, 2018, the Audit Committee determined that its investigation was complete, and authorized the filing of our restated audited consolidated financial statements for the years ended December 31, 2017 and 2016 and certain quarterly periods within those fiscal years in order to correct our previously issued financial statements.

Impact of the Restatement

As a result of the restatement, reported net income from continuing operations and earnings per diluted share from continuing operations was adjusted for the interim period ended June 30, 2017 as follows:

- For the quarter ended June 30, 2017, net income from continuing operations decreased $7 million, or $0.03 per diluted share, and income from discontinued operations, net of tax, increased by $2 million, or $0.01 per diluted share.
- For the six months ended June 30, 2017, net income from continuing operations decreased $4 million, or $0.02 per diluted share, and income from discontinued operations, net of tax, increased by $2 million, or$0.01 per diluted share.

The categories of misstatements and their impact on previously reported condensed consolidated financial statements are described below:

(a) Customer Rebates

The Company did not properly recognize expense associated with certain customer rebates, resulting in a misstatement of Net sales in the first and second quarters of 2017. The misstatements overstated previously reported Income from continuing operations before income taxes by $1.4 million and $1.8 million for the three and six months ended June 30, 2017, respectively.

(b) Employee Vacation Pay

The Company did not properly recognize expense associated with a change in the Company’s vacation policy in the second and third quarters of 2017. Rather, the entire amount of expense associated with this change was recognized in the fourth quarter of 2017, resulting in a misstatement of expense in the second, third and fourth quarters of 2017. The misstatements overstated previously reported Income from continuing operations before income taxes by $0.9 million for the three and six months ended June 30, 2017.

(c) Compensation Expense

The Company did not properly record compensation expense related to a payment made to an employee upon his separation from the Company in the second quarter of 2017. Rather, the expense associated with this payment was recognized in the second, third and fourth quarters of 2017 resulting in a misstatement of expense in each of these periods. The misstatements overstated previously reported Income from continuing operations before income taxes by $3.5 million for the three and six months ended June 30, 2017.

(d) Health Care Claims

The Company did not properly recognize expense associated with the Company’s liability for employee health care claims in the second quarter of 2017. Rather, this expense was recognized in the third quarter of 2017, resulting in a misstatement of expense in the second and third quarters of 2017. The misstatements overstated previously reported Income from continuing operations before income taxes by $3.5 million for the three and six months ended June 30, 2017.

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(e) Classification of Continuing Operations and Discontinued Operations

Certain items of income related to PPG's former Glass segment were inappropriately recorded in continuing operations rather than in discontinued operations. The misstatements overstated previously reported Income from continuing operations before income taxes by $2.5 million for the three and six months ended June 30, 2017. The misstatements understated previously recorded Income from discontinued operations, net of tax, by $1.5 million for the three and six months ended June 30, 2017.

(f) Stock-Based Compensation

In the fourth quarter of 2016, the Company improperly reduced the payout assumption for the 2015 grant of performance-based restricted stock units from 150% to 100%, which had the effect of reducing stock-based compensation expense in that period by $6.8 million. In the first quarter of 2017, the Company increased the payout assumption for these same restricted stock units from 100% back to 150%. These improper changes to the payout assumption for these restricted stock units resulted in a misstatement of stock-based compensation expense in the first quarter of 2017. The misstatements understated previously reported Income from continuing operations before income taxes by $6.8 million for the six months ended June 30, 2017.

(g) Environmental Reserve

In the first quarter of 2017, the Company failed to appropriately update the discount rate used to calculate a long-term environmental remediation reserve, which had the effect of understating Other expense by $0.5 million in the quarter. The misstatement overstated previously reported Income from continuing operations before taxes by $0.5 million for the six months ended June 30, 2017.

(h) Income Taxes

Adjustments related to the income tax effects of other restatement adjustments noted above.

The financial statements included in this Form 10-Q have been restated to reflect the adjustments described above. The tables below summarizes the effects of the restatement on the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2017.

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Condensed Consolidated Statement of Income (unaudited) - Summary of Restatement

| | Three Months Ended June 30, 2017 | | | |
|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | Reference | As Restated |
| Net sales | $3,806 | ($2) | (a) | $3,804 |
| Selling, general and administrative | 865 | 7 | (b),(c),(d) | 872 |
| Other income | (72) | 3 | (e) | (69) |
| Income from continuing operations before income taxes | $671 | ($12) | | $659 |
| Income tax expense | 162 | (5) | (h) | 157 |
| Income from continuing operations | $509 | ($7) | | $502 |
| Loss from discontinued operations, net of tax | (3) | 2 | (e) | (1) |
| Net income attributable to the controlling and noncontrolling interests | $506 | ($5) | | $501 |
| Less: Net income attributable to noncontrolling interests | (5) | — | | (5) |
| Net income (attributable to PPG) | $501 | ($5) | | $496 |
| Amounts attributable to PPG: | | | | |
| Income from continuing operations, net of tax | $504 | ($7) | | $497 |
| Loss from discontinued operations, net of tax | (3) | 2 | | (1) |
| Net income (attributable to PPG) | $501 | ($5) | | $496 |
| Earnings per common share: | | | | |
| Income from continuing operations, net of tax | $1.96 | ($0.03) | | $1.93 |
| Loss from discontinued operations, net of tax | (0.01) | 0.01 | | — |
| Net income (attributable to PPG) | $1.95 | ($0.02) | | $1.93 |
| Earnings per common share – assuming dilution: | | | | |
| Income from continuing operations, net of tax | $1.95 | ($0.03) | | $1.92 |
| Loss from discontinued operations, net of tax | (0.01) | 0.01 | | — |
| Net income (attributable to PPG) | $1.94 | ($0.02) | | $1.92 |
| Dividends per common share | $0.40 | $— | | $0.40 |

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| | Six Months Ended June 30, 2017 | | | |
|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | Reference | As Restated |
| Net sales | $7,292 | ($2) | (a) | $7,290 |
| Selling, general and administrative | 1,753 | 1 | (b),(c),(d),(f) | 1,754 |
| Other charges | 26 | — | (g) | 26 |
| Other income | (96) | 3 | (e) | (93) |
| Income from continuing operations before income taxes | $1,111 | ($6) | | $1,105 |
| Income tax expense | 269 | (2) | (h) | 267 |
| Income from continuing operations | $842 | ($4) | | $838 |
| Income from discontinued operations, net of tax | 3 | 2 | (e) | 5 |
| Net income attributable to the controlling and noncontrolling interests | $845 | ($2) | | $843 |
| Less: Net income attributable to noncontrolling interests | (10) | — | | (10) |
| Net income (attributable to PPG) | $835 | ($2) | | $833 |
| Amounts attributable to PPG: | | | | |
| Income from continuing operations, net of tax | $832 | ($4) | | $828 |
| Income from discontinued operations, net of tax | 3 | 2 | | 5 |
| Net income (attributable to PPG) | $835 | ($2) | | $833 |
| Earnings per common share: | | | | |
| Income from continuing operations, net of tax | $3.23 | ($0.01) | | $3.22 |
| Income from discontinued operations, net of tax | 0.01 | 0.01 | | 0.02 |
| Net income (attributable to PPG) | $3.24 | $— | | $3.24 |
| Earnings per common share – assuming dilution: | | | | |
| Income from continuing operations, net of tax | $3.21 | ($0.02) | | $3.19 |
| Income from discontinued operations, net of tax | 0.01 | 0.01 | | 0.02 |
| Net income (attributable to PPG) | $3.22 | ($0.01) | | $3.21 |
| Dividends per common share | $0.80 | $— | | $0.80 |

Quarterly Condensed Consolidated Statement of Comprehensive Income (unaudited) - Summary of Restatement

In the condensed consolidated statement of comprehensive income for the three and six months ended June 30, 2017, Net income attributable to the controlling and noncontrolling interests reflects the impact of the restatement adjustments. The restatement adjustments had no impact to the previously disclosed components of Other comprehensive income, net of tax.

Quarterly Condensed Consolidated Statement of Cash Flows (unaudited) - Summary of Restatement

There was no net impact of the restatement adjustments on net cash provided by operating activities, net cash provided by investing activities or net cash used in financing activities in the condensed consolidated statement of cash flows for the six months ended June 30, 2017. The adjustments only had an impact on certain captions within cash from operating activities.

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3. New Accounting Standards

Accounting Standards Adopted in 2018

Effective January 1, 2018, PPG adopted Accounting Standard Updates ("ASU") No. 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." This ASU requires the service cost component of these costs to be disaggregated from all other components and to be reported in the same line item or items as other compensation costs. The other components of these costs are required to be presented in the income statement separately from the service cost component. This ASU required retrospective adoption for all prior periods presented.

The effect of the retrospective adoption on the condensed consolidated statement of income related to the net periodic pension and other postretirement benefit costs was as follows:

| | Three Months Ended June 30, 2017 | | |
|---|---|---|---|
| ($ in millions) | As Previously Reported [1] | Reclassifications | As Revised |
| Cost of sales, exclusive of depreciation and amortization | $2,082 | $1 | $2,083 |
| Selling, general and administrative | 872 | 4 | 876 |
| Research and development, net | 113 | (1) | 112 |
| Other charges | 12 | (4) | 8 |
| Income from continuing operations before income taxes | 659 | — | 659 |

| | Six Months Ended June 30, 2017 | | |
|---|---|---|---|
| ($ in millions) | As Previously Reported [1] | Reclassifications | As Revised |
| Cost of sales, exclusive of depreciation and amortization | $3,987 | ($2) | $3,985 |
| Selling, general and administrative | 1,754 | (3) | 1,751 |
| Research and development, net | 223 | (2) | 221 |
| Other charges | 26 | 7 | 33 |
| Income from continuing operations before income taxes | 1,105 | — | 1,105 |

(1) Previously reported amounts reflect the impact of the restatement as described in Note 2, "Restatement of Previously Reported Condensed Consolidated Quarterly Financial Statements" and in the 2017 Form 10-K/A

In February 2018, the Financial Accounting Standards Board ("FASB") issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU allows a reclassification from Accumulated other comprehensive income to Retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. PPG early adopted this standard in the first quarter of 2018 using the specific identification method and recorded a reclassification from other comprehensive income to retained earnings of $107 million.

Effective January 1, 2018, PPG adopted ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606." See Note 4, "Revenue Recognition" for further details regarding the impact of adoption of this standard.

PPG's adoption of the following ASU's in 2018 did not have a significant impact on PPG's consolidated financial position, results of operations or cash flows:

| Accounting Standard Update | |
|---|---|
| 2017-12 | Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities |
| 2017-09 | Stock Compensation - Scope of Modification Accounting |
| 2016-16 | Intra-Entity Transfers of Assets Other Than Inventory |
| 2016-05 | Classification of Certain Cash Receipts and Cash Payments |
| 2016-01 | Recognition and Measurement of Financial Assets and Liabilities |

Accounting Standards to be Adopted in Future Years

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses.” This ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019 and for interim periods therein. Entities may choose to

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adopt the new ASU as of its fiscal year beginning after December 15, 2018. PPG does not believe this ASU will have a material impact on its consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, “Leases.” This ASU requires all lessees to recognize on the balance sheet right to use assets and lease liabilities for the rights and obligations created by lease arrangements with terms greater than 12 months. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and for interim periods therein. PPG is in the process of assessing the impact the adoption of this ASU will have on its consolidated financial position, results of operations and cash flows. At a minimum, total assets and total liabilities will increase in the period the ASU is adopted. Early adoption of this ASU is permitted. At December 31, 2017, PPG’s undiscounted future minimum payments outstanding for lease obligations were approximately $840 million.

4. Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers: Topic 606.” This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognizing revenue, the application of which may require significant judgment. The new guidance requires PPG to evaluate the transfer of promised goods or services to customers and recognize revenue in an amount that reflects the consideration which the Company expects to be entitled to receive in exchange for those goods and services.

The Company recognizes revenue when control of the promised goods or services is transferred to the customer and in amounts that the Company expects to collect. The timing of revenue recognition takes into consideration the various shipping terms applicable to the Company’s sales. For most transactions, control passes in accordance with agreed upon delivery terms. This approach is consistent with the Company’s historical revenue recognition methodology.

The Company delivers products to company-owned stores, home centers and other regional or national consumer retail outlets, paint dealers, concessionaires and independent distributors, company-owned distribution networks, and directly to manufacturing companies and retail customers. Each product delivered to a third party customer is considered to satisfy a performance obligation. Performance obligations generally occur at a point in time and are satisfied when control of the goods passes to the customer. The Company is entitled to collection of the sales price under normal credit terms in the regions in which it operates.

The Company also provides services by applying coatings to customers' manufactured parts and assembled products and by providing technical support to certain customers. Performance obligations are satisfied over time as critical milestones are met and as services are provided. PPG is entitled to payment as the services are rendered. For the three and six months ended June 30, 2018 and 2017, service revenue constituted approximately 5% of total revenue, while the balance constituted standard ship and bill, retail or consignment arrangements. Accounts receivable are recognized when there is an unconditional right to consideration. Payment terms vary from customer to customer, depending on creditworthiness, prior payment history and other considerations.

Net sales by segment and region for the three and six months ended June 30, 2018 and 2017 were as follows:

| ($ in millions) | Performance Coatings | | Industrial Coatings | | Total Net Sales | |
|---|---|---|---|---|---|---|
| | Three Months Ended June 30 | | Three Months Ended June 30 | | Three Months Ended June 30 | |
| | 2018 | 2017 As Restated | 2018 | 2017 | 2018 | 2017 As Restated |
| United States and Canada | $1,173 | $1,093 | $619 | $588 | $1,792 | $1,681 |
| EMEA | 811 | 740 | 468 | 412 | 1,279 | 1,152 |
| Asia-Pacific | 277 | 238 | 403 | 370 | 680 | 608 |
| Latin America | 237 | 228 | 143 | 135 | 380 | 363 |
| Total | $2,498 | $2,299 | $1,633 | $1,505 | $4,131 | $3,804 |

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| ($ in millions) | Performance Coatings | | Industrial Coatings | | Total Net Sales | |
|---|---|---|---|---|---|---|
| | Six Months Ended June 30 | | Six Months Ended June 30 | | Six Months Ended June 30 | |
| | 2018 | 2017 As Restated | 2018 | 2017 | 2018 | 2017 As Restated |
| United States and Canada | $2,147 | $2,055 | $1,230 | $1,169 | $3,377 | $3,224 |
| EMEA | 1,518 | 1,369 | 941 | 806 | 2,459 | 2,175 |
| Asia-Pacific | 519 | 458 | 791 | 733 | 1,310 | 1,191 |
| Latin America | 474 | 434 | 292 | 266 | 766 | 700 |
| Total | $4,658 | $4,316 | $3,254 | $2,974 | $7,912 | $7,290 |

The Company adopted the ASU using the modified retrospective approach which required the financial statements to reflect the new standard as of January 1, 2018, and as a result, contracts that ended prior to January 1, 2018 were not included within the Company’s assessment. Accordingly, the amounts in the comparative condensed consolidated statements of income and condensed consolidated balance sheet have not been recast. The ASU also provided additional clarity that resulted in reclassifications to or from Net sales, Cost of sales, exclusive of depreciation and amortization, Selling, general and administrative and Other income. Certain costs historically reported in Selling, general and administrative costs will now be recorded in Cost of sales, exclusive of depreciation and amortization in the condensed consolidated statement of income, as they represent costs incurred in satisfaction of performance obligations. In addition, the cost of certain customer incentives are now recorded as a reduction of Net sales rather than Cost of sales, exclusive of depreciation and amortization or Selling, general and administrative costs.

The following table summarizes the impact of the adoption of this ASU on the condensed consolidated statement of income for the three and six months ended June 30, 2018:

| | Three Months Ended June 30, 2018 | | |
|---|---|---|---|
| ($ in millions) | Without adoption | Adjustments | As Reported |
| Net sales | $4,134 | ($3) | $4,131 |
| Cost of sales, exclusive of depreciation and amortization | 2,360 | 19 | 2,379 |
| Selling, general and administrative | 963 | (18) | 945 |
| Other income | (26) | 2 | (24) |
| Income from continuing operations before income taxes | 479 | — | 479 |

| | Six Months Ended June 30, 2018 | | |
|---|---|---|---|
| ($ in millions) | Without adoption | Adjustments | As Reported |
| Net sales | $7,919 | ($7) | $7,912 |
| Cost of sales, exclusive of depreciation and amortization | 4,517 | 43 | 4,560 |
| Selling, general and administrative | 1,892 | (41) | 1,851 |
| Other income | (53) | 5 | (48) |
| Income from continuing operations before income taxes | 900 | — | 900 |

5. Acquisitions and Divestitures

Acquisitions

In January 2018, PPG acquired ProCoatings, a leading architectural paint and coatings wholesaler located in The Netherlands. ProCoatings, established in 2001, distributes a large portfolio of well-known professional paint brands through its network of 23 multi-brand stores.

In January 2017, PPG completed the acquisition of DEUTEK S.A., a leading Romanian paint and architectural coatings manufacturer, from the Emerging Europe Accession Fund. DEUTEK, established in 1993, manufactures and markets a large portfolio of well-known professional and consumer paint brands, including OSKAR® and DANKE!®. The company’s products are sold in more than 120 do-it-yourself stores and 3,500 independent retail outlets in Romania.

In January 2017, PPG also acquired certain assets of automotive refinish coatings company Futian Xinshi ("Futian"), an automotive refinish coatings company based in the Guangdong province of China. Futian distributes its products in China through a network of more than 200 distributors.

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Taiwan Chlorine Industries

Taiwan Chlorine Industries (“TCI”) was established in 1986 as a joint venture between PPG and China Petrochemical Development Corporation (“CPDC”) to produce chlorine-based products in Taiwan, at which time PPG owned 60 percent of the venture. In conjunction with the 2013 separation of its commodity chemicals business, PPG conveyed to Axiall Corporation ("Axiall") its 60% ownership interest in TCI. Under PPG’s agreement with CPDC, if certain post-closing conditions were not met following the three year anniversary of the separation, CPDC had the option to sell its 40% ownership interest in TCI to Axiall for $100 million. In turn, Axiall had a right to designate PPG as its designee to purchase the 40% ownership interest of CPDC. In April 2016, Axiall announced that CPDC had decided to sell its ownership interest in TCI to Axiall. In June 2016, Axiall formally designated PPG to purchase the 40% ownership interest in TCI. In August 2016, Westlake Chemical Corporation acquired Axiall, which became a wholly-owned subsidiary of Westlake. On April 11, 2017, PPG finalized its purchase of CPDC’s 40% ownership interest in TCI. The difference between the acquisition date fair value and the purchase price of PPG’s 40% ownership interest in TCI was recorded as a loss in discontinued operations during the second quarter 2017.

Divestitures

Glass Segment

The net sales and income from discontinued operations related to the former Glass reportable business segment for the three and six months ended June 30, 2017 were as follows:

| ($ in millions) | Three Months Ended June 30, 2017 As Restated | Six Months Ended June 30, 2017 As Restated |
|---|---|---|
| Net sales | $84 | $167 |
| | | |
| Income from operations | $12 | $21 |
| Income tax expense | 4 | 8 |
| Income from discontinued operations, net of tax | $8 | $13 |

6. Inventories

| ($ in millions) | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Finished products | $1,218 | $1,083 |
| Work in process | 204 | 177 |
| Raw materials | 500 | 437 |
| Supplies | 34 | 33 |
| Total Inventories | $1,956 | $1,730 |

Most U.S. inventories are valued using the last-in, first-out method. These inventories represented approximately 33% and 34% of total inventories at June 30, 2018 and December 31, 2017, respectively. If the first-in, first-out method of inventory valuation had been used, inventories would have been $113 million and $103 million higher as of June 30, 2018 and December 31, 2017, respectively.

7. Goodwill and Other Identifiable Intangible Assets

The change in the carrying amount of goodwill attributable to each reportable segment for the six months ended June 30, 2018 was as follows:

| ($ in millions) | Performance Coatings | Industrial Coatings | Total |
|---|---|---|---|
| January 1, 2018 | $3,104 | $838 | $3,942 |
| Acquisitions | 53 | 1 | 54 |

| | | | |
|---|---|---|---|
| Foreign currency | (62) | (14) | (76) |
| June 30, 2018 | $3,095 | $825 | $3,920 |

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A summary of the carrying value of the Company's identifiable intangible assets is as follows:

| ($ in millions) | June 30, 2018 Gross Carrying Amount | Accumulated Amortization | Net | December 31, 2017 Gross Carrying Amount | Accumulated Amortization | Net |
|---|---|---|---|---|---|---|
| Trademarks - indefinite lives | $1,142 | N/A | $1,142 | $1,158 | N/A | $1,158 |
| | | | | | | |
| Customer-related intangibles | $1,414 | ($781) | $633 | $1,437 | ($762) | $675 |
| Acquired technology | 630 | (502) | 128 | 613 | (489) | 124 |
| Trade names | 166 | (91) | 75 | 166 | (87) | 79 |
| Other | 43 | (35) | 8 | 44 | (35) | 9 |
| Total | $2,253 | ($1,409) | $1,986 | $3,418 | ($1,373) | $2,045 |

The Company's identifiable intangible assets with finite lives are being amortized over their estimated useful lives.

| ($ in millions) | Three Months Ended June 30 2018 | 2017 | Six Months Ended June 30 2018 | 2017 |
|---|---|---|---|---|
| Amortization expense related to identifiable intangible assets | $34 | $32 | $70 | $63 |

As of June 30, 2018, estimated future amortization expense of identifiable intangible assets is as follows:

| ($ in millions) | Future Amortization Expense |
|---|---|
| Remaining six months of 2018 | $60 |
| 2019 | 120 |
| 2020 | 110 |
| 2021 | 105 |
| 2022 | 105 |
| 2023 | 95 |
| Thereafter | 249 |

## 8. Business Restructuring

The Company records restructuring liabilities that represent charges incurred in connection with consolidations of certain operations, including operations from acquisitions, as well as headcount reduction programs. These charges consist primarily of severance costs and asset write-downs.

On April 23, 2018, the Company approved a business restructuring plan which includes actions to reduce its global cost structure. The program is in response to the impacts of a customer assortment change in our U.S. architectural coatings business during the first quarter 2018 and sustained, elevated raw material inflation. The program aims to further right-size employee headcount and production capacity in certain businesses based on current product demand, as well as reductions in various global functional and administrative costs.

A pretax restructuring charge of $83 million was recorded in PPG's second quarter 2018 financial results, of which $80 million represents employee severance and other cash costs. The remainder of the charge represents the write-down of certain assets. In addition, other cash costs of approximately $25 million will be incurred, consisting of approximately $10 million of incremental restructuring-related cash costs for certain items that are required to be expensed on an as-incurred basis and approximately $15 million for items which are expected to be capitalized. The Company also expects approximately $20 million of incremental non-cash accelerated depreciation expense for certain assets due to their reduced expected asset life as a result of this program, $5 million of which was recognized in the second quarter of 2018. Substantially all actions from this business restructuring plan are expected to be complete by the end of the second quarter of 2019.

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The 2018 restructuring charge and the reserve activity for the quarter ended June 30, 2018 were as follows:

| ($ in millions, except for employees impacted) | Severance and Other Costs | Asset Write-offs | Total Reserve | Employees Impacted |
|---|---|---|---|---|
| Performance Coatings | $49 | $3 | $52 | 1,032 |
| Industrial Coatings | 21 | — | 21 | 298 |
| Corporate | 10 | — | 10 | 348 |
| Total second quarter 2018 restructuring charge | $80 | $3 | $83 | 1,678 |
| 2018 Activity | (2) | (3) | (5) | (358) |
| Foreign currency impact | (2) | — | (2) | — |
| June 30, 2018 | $76 | $— | $76 | 1,320 |

In December 2016, PPG's Board of Directors approved a business restructuring program which includes actions necessary to reduce the Company's global cost structure. The program is focused on certain regions and end-use markets where business conditions are the weakest, as well as reductions in production capacity and various global functional and administrative costs. The restructuring actions will result in the net reduction of approximately 2,000 positions, with substantially all actions to be completed in 2018.

In the first quarter of 2018, adjustments of approximately $17 million were recorded to reduce the remaining restructuring reserves established in 2016 to reflect the current estimate of the costs to complete these actions. Also in the first quarter of 2018, some additional restructuring actions were approved and charges of approximately $17 million were recorded.

The following table summarizes the reserve activity related to the 2016 restructuring charge for the six months ended June 30, 2018:

| ($ in millions, except for employees impacted) | Severance and Other Costs | Employees Impacted |
|---|---|---|
| December 31, 2017 | $102 | 949 |
| 2018 Activity | (30) | (491) |
| Foreign currency | (3) | — |
| June 30, 2018 | $69 | 458 |

9. Borrowings

In February 2018, PPG completed a public offering of $300 million aggregate principal amount of 3.2% notes due 2023 and $700 million aggregate principal amount of 3.75% notes due 2028. These notes were issued pursuant to PPG's existing shelf registration statement and pursuant to an indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee, as supplemented. The Indenture governing these notes contains covenants that limit the Company's ability to, among other things, incur certain liens securing indebtedness, engage in certain sale-leaseback transactions, and enter into certain consolidations, mergers, conveyances, transfers or leases of all or substantially all the Company's assets. The terms of these notes also require the Company to make an offer to repurchase Notes upon a Change of Control Triggering Event (as defined in the Indenture) at a price equal to 101% of their principal amount plus accrued and unpaid interest. The Company may issue additional debt from time to time pursuant to the Indenture.

The aggregate cash proceeds from the notes, net of discounts and fees, was $992 million. A portion of the notes were converted from a fixed interest rate to a floating interest rate using interest rate swap contracts. For more information, refer to Note 15, "Financial Instruments, Hedging Activities and Fair Value Measurements."

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10. Earnings Per Share

The effect of dilutive securities on the weighted average common shares outstanding included in the calculation of earnings per diluted common share for the three and six months ended June 30, 2018 and 2017 were as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| (number of shares in millions) | 2018 | 2017 | 2018 | 2017 |
| Weighted average common shares outstanding | 244.9 | 257.1 | 247.4 | 257.4 |
| Effect of dilutive securities: | | | | |
| Stock options | 0.8 | 1.1 | 0.8 | 1.1 |
| Other stock compensation awards | 0.7 | 0.8 | 0.7 | |