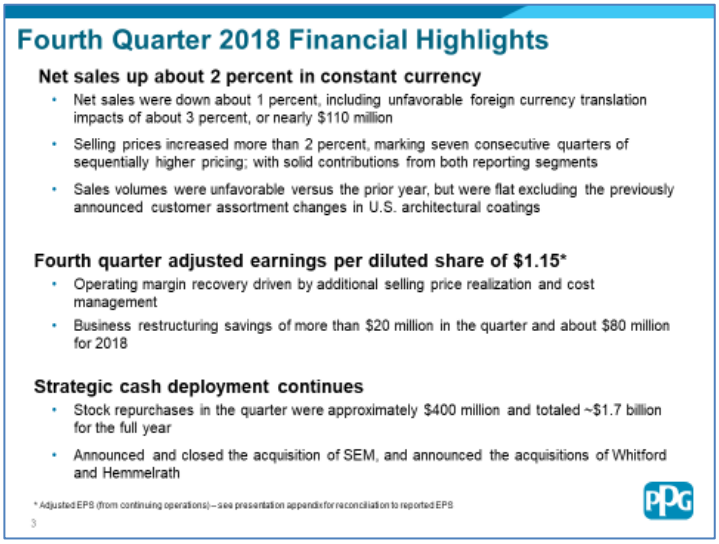
PPG Industries, Inc. Fourth Quarter 2018 Financial Results

Earnings Brief – January 17, 2019



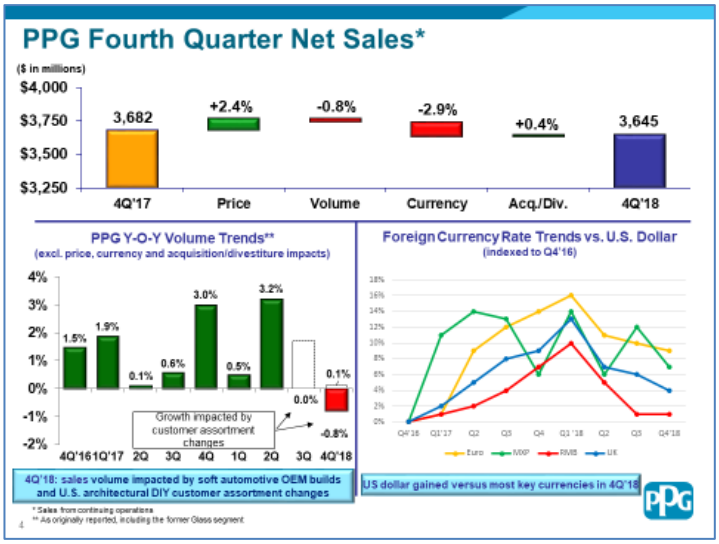
Fourth Quarter Financial Highlights

PPG fourth quarter net sales from continuing operations were approximately $3.6 billion, down about 1 percent versus the prior year. Net sales in local currencies grew by about 2 percent versus the prior year, aided by improved selling prices of greater than 2 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 $1.07. Adjusted earnings per diluted share from continuing operations were $1.15. Earnings continued to be impacted by higher year-over-year raw material costs, which was mostly related to carry-forward inflation. In addition, logistics costs remained at elevated levels. These cost increases were partially offset by more than $20 million of savings from previously announced restructuring actions and continued discretionary cost management. The strengthening of the U.S. dollar during the fourth quarter resulted in unfavorable foreign currency translation of approximately $10 million primarily due to the depreciation of the euro, U.K. pound, Mexican peso and several emerging region currencies in the fourth quarter.

The fourth quarter adjusted effective tax rate was about 26 percent. The higher current quarter tax rate is primarily attributable to the timing of recognizing unfavorable discrete tax items, which are unpredictable in both magnitude and timing.

Earnings-accretive cash deployment continued in the fourth quarter, including share repurchases totaling over $400 million, which represented about 4 million shares or approximately 2 percent of total outstanding shares. In October, PPG announced the acquisition of SEM, an automotive refinish manufacturer, and subsequently closed the transaction in December. In addition, the company recently announced two other acquisitions; Whitford Worldwide Company, a global manufacturer that specializes in low-friction and nonstick coatings for industrial applications and consumer products, and Hemmelrath, a manufacturer of coatings for automotive original equipment manufacturers (OEMs). The Whitford acquisition is currently expected to close by the end of the first quarter and the Hemmelrath acquisition is expected to close at some point in the second quarter, both pending required regulatory approvals.

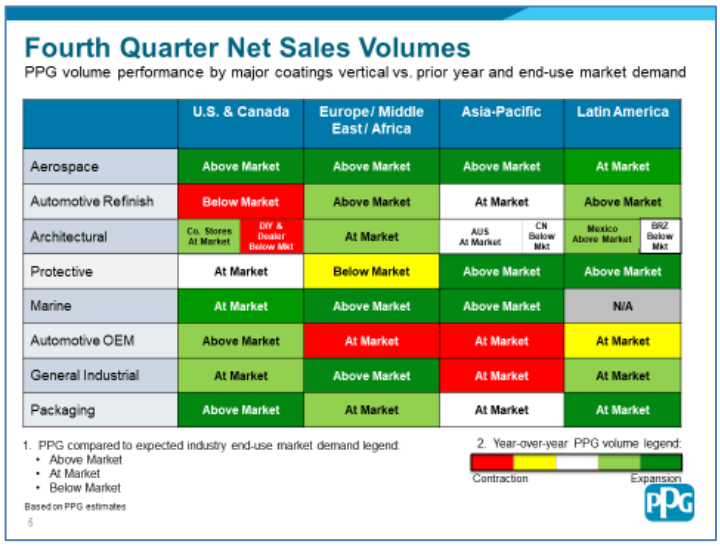


PPG Fourth Quarter Net Sales

PPG fourth quarter net sales of $3.6 billion were down by $37 million year-over-year, including unfavorable foreign currency translation of approximately $110 million, or about 3 percent. Excluding the unfavorable impact from the previously announced customer assortment changes in the U.S. architectural coatings business, sales growth was about 3 percent in constant currency.

Aggregate selling prices increased by more than 2 percent year-over-year, with solid contributions from both reporting segments. This marked the seventh consecutive quarter of improvement over the previous sequential quarter. Additional selling price initiatives continue. Acquisition-related sales added about $15 million, including the SEM acquisition.

The U.S. dollar was stronger compared to the prior year fourth quarter, especially against the euro, Mexican peso, and British pound, resulting in an unfavorable foreign exchange translation impact of about 3 percent. Additional details on the sales volume results by region and business unit are included later in the presentation materials.



Fourth Quarter Net Sales Volume

Aggregate global sales volumes were down less than 1 percent in the fourth quarter of 2018. Excluding the unfavorable impact from the previously announced customer assortment changes in the U.S. architectural business, sales volume growth would have been slightly favorable to the prior year's fourth quarter.

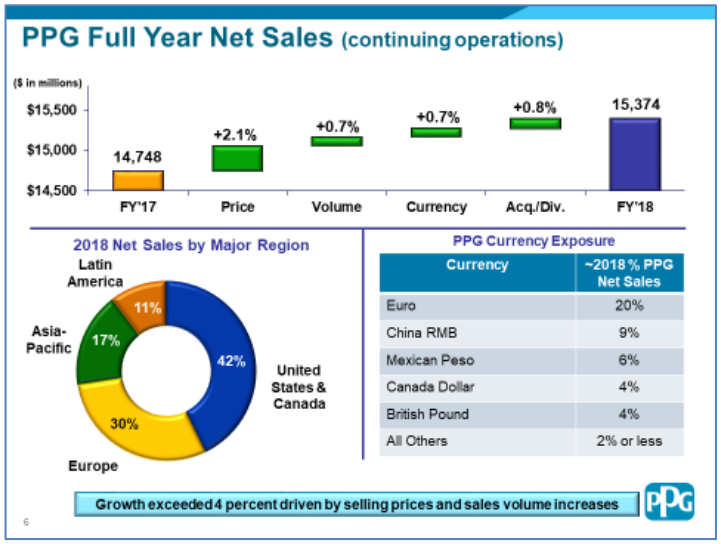
In the U.S. and Canada region, sales volumes were down by a low-single-digit percentage versus the prior year. Aerospace, automotive, and packaging coatings had above-market sales volume performance driven by customers' continued adoption of PPG's technology advantaged products. Same store sales for 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 refinish coatings business more than offset these gains. The general industrial coatings and marine coatings businesses had solid regional sales volume growth during the quarter.

Sales volumes were higher in the Europe, Middle East, and Africa (EMEA) region. Strong sales volume growth in general industrial and aerospace was offset by lower sales volumes in the automotive OEM coatings business. Sales volumes grew a low-single-digit percentage in the architectural EMEA coatings business led by solid growth from the Northern and Eastern countries in the continent. Automotive builds in this region are forecasted to fall in the first quarter 2019 compared to the prior year quarter.

Industry demand was soft in China during the fourth quarter evidenced by the manufacturing PMI of less than 50 for the month of December. This contributed to sales volumes in Asia-Pacific being down by a low-single digit percentage year-over-year. Strong sales volumes in aerospace coatings and protective and marine coatings were offset by sharply lower volumes in automotive OEM coatings of about 15 percent. Industry auto production rates in China fell about the same amount during the fourth quarter compared to the prior year. In addition, general industrial and packaging coatings volumes fell a low-single-digit percentage as a result of the soft industrial production demand. From a country and sub-region perspective, sales volumes grew in India, Australia, Korea, and Southeast Asia versus the prior year, but modestly decreased in China.

Looking ahead, we expect regional sales volumes in automotive OEM and general industrial coatings to remain negative in the first quarter as industrial activity in China is anticipated to continue to be more volatile, partially due to the impact of global trade policies.

Sales volumes expanded in Latin America by a low-single-digit percentage versus the prior year capping a solid year of growth from this region. Most of the businesses had aggregate growth in this region during the fourth quarter with strong results in the protective, packaging and automotive refinish coatings businesses. The architectural coatings business in Mexico grew organic sales by a mid-single-digit percentage despite difficult comparisons to the prior year period when there was a sharp increase in demand due to post earthquake activity.



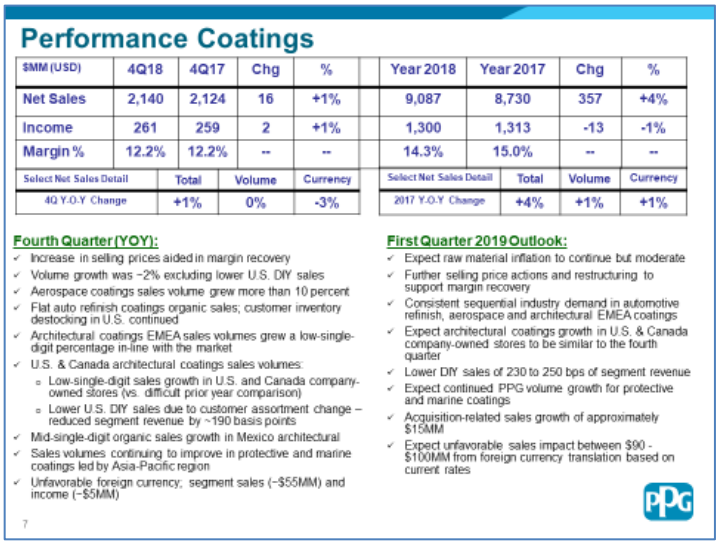
PPG Full-Year Net Sales

PPG's full-year net sales totaled approximately $15.4 billion, up more than 4% compared to the prior year. Acquisition-related sales benefited net sales by nearly 1 percent with the largest contribution coming from the October 2017 acquisition of The Crown Group.

Year-over-year sales volumes, excluding acquisition-related sales, grew nearly 1 percent, led by growth from emerging regions and Europe. From a business unit perspective, aerospace, protective, marine, general industrial, and packaging coatings provided the largest contributions to the overall sales volume gains.

Foreign currency translation was modestly favorable to net sales year-over-year. Favorable currency translation impacts experienced in the first half of 2018 offset unfavorable impacts during the second half of the year. The company's largest foreign currency translation exposures remained the same as last year. In 2018, overall pricing for the company increased by more than 2 percent versus the prior year.

The company's 2018 regional sales mix was largely consistent with prior-year results. Sales in the U.S. and Canada were about 42 percent, with sales in the U.S. representing slightly less than 40 percent of the total company revenues.



Performance Coatings

$MM (USD)	4Q18	4Q17	Chg	%	Year 2018	Year 2017	Chg	%
Net Sales	2,140	2,124	16	+1%	9,087	8,730	357	+4%
Income	261	259	2	+1%	1,300	1,313	-13	-1%
Margin %	12.2%	12.2%	--	--	14.3%	15.0%	--	--

Select Net Sales Detail	Total	Volume	Currency
4Q Y-O-Y Change	+1%	0%	-3%

Select Net Sales Detail	Total	Volume	Currency
2017 Y-O-Y Change	+4%	+1%	+1%

Fourth Quarter (YOY):
- Increase in selling prices aided in margin recovery
- Volume growth was ~2% excluding lower U.S. DIY sales
- Aerospace coatings sales volume grew more than 10 percent
- Flat auto refinish coatings organic sales; customer inventory destocking in U.S. continued
- Architectural coatings EMEA sales volumes grew a low-single-digit percentage in-line with the market
- U.S. & Canada architectural coatings sales volumes:
  - Low-single-digit sales growth in U.S. and Canada company-owned stores (vs. difficult prior year comparison)
  - Lower U.S. DIY sales due to customer assortment change – reduced segment revenue by ~190 basis points
- Mid-single-digit organic sales growth in Mexico architectural
- Sales volumes continuing to improve in protective and marine coatings led by Asia-Pacific region
- Unfavorable foreign currency; segment sales (~$55MM) and income (~$5MM)

First Quarter 2019 Outlook:
- Expect raw material inflation to continue but moderate
- Further selling price actions and restructuring to support margin recovery
- Consistent sequential industry demand in automotive refinish, aerospace and architectural EMEA coatings
- Expect architectural coatings growth in U.S. & Canada company-owned stores to be similar to the fourth quarter
- Lower DIY sales of 230 to 250 bps of segment revenue
- Expect continued PPG volume growth for protective and marine coatings
- Acquisition-related sales growth of approximately $15MM
- Expect unfavorable sales impact between $90 - $100MM from foreign currency translation based on current rates

7

Performance Coatings

Fourth quarter net sales for the Performance Coatings segment were about $2.1 billion, up 1 percent versus the prior year. Selling prices increased by nearly 3 percent. Segment sales volumes were flat compared to the prior year. Excluding the unfavorable impact from the previously announced customer assortment changes in the U.S. architectural business, sales volumes grew about 2 percent. Sales volume growth continued in emerging regions, which, in aggregate, grew by a mid-single-digit percentage consistent with the growth experienced in the third quarter 2018. Segment sales were negatively impacted by unfavorable foreign currency translation of about $55 million, or nearly 3 percent.

Segment income was about $260 million, comparable to the fourth quarter 2017. 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.

From a business unit perspective, automotive refinish coatings organic sales were flat year over year. Sales volumes were impacted by lower sales in the U.S. from continued customer inventory destocking, which is expected to be completed as of year-end, and we expect the business to return to growth in the first quarter. The automotive refinish business continues to grow as evidenced by a net addition of nearly 4,000 body shops in 2018.

Aerospace coatings sales volumes grew by a low-teen-digit percentage for the second consecutive quarter, as strong industry demand continued and including above-market volume growth in every major region, supported by technology-advantaged products. Consistent with the prior quarter, aerospace sales grew across all major platforms. We expect continued strong performance in the first quarter albeit with growth rates slightly below the past two quarters as year-over-year comparisons become more challenging due to strong growth in the prior year.

Year-over-year organic sales improved by a mid-single-digit percentage in architectural coatings EMEA. Solid volume growth in Northern and Eastern Europe was offset by lower volumes in Southern Europe. Overall, first quarter net sales are expected to be similar sequentially due to normal seasonal patterns with results remaining uneven by country. Focus remains on potential lower industry demand in the U.K. due to the potential for subdued consumer spending as a result of continued apprehension surrounding the “BREXIT” process.

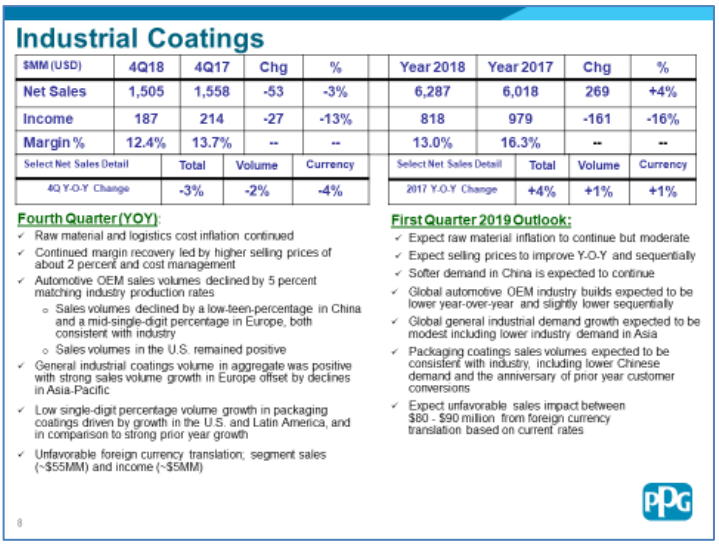
Architectural coatings Americas and Asia Pacific organic sales volumes were lower by a mid-single-digit percentage primarily driven by the customer assortment changes in the U.S. DIY channel. The U.S. and Canada company-owned store network grew organic sales by a low-single-digit percentage. Growth was more tepid than the fourth quarter due to a difficult comparison to the prior year. The Mexico-based PPG-Comex architectural coatings businesses grew organic sales by a mid-single-digit percentage as positive demand trends continued. The PPG-Comex business opened approximately 200 new concessionaire locations in 2018, bringing the total location count to over 4,600.

Aggregate protective and marine coatings sales volumes increased by a high-single-digit percentage driven by strong protective coatings sales volumes in China and better marine coatings year-over-year off a low prior year sales base. Solid growth is expected to continue into 2019.

Full-year segment net sales were approximately $9.1 billion, increasing by about 4 percent, or $357 million year over year, including favorable foreign currency translation of about $75 million, or less than 1 percent. Net sales in local currencies improved by about 3 percent versus the prior year. Segment sales volumes were up approximately 1 percent, and acquisition-related sales added less than 1 percent.

Looking ahead, year-over-year raw material cost inflation is expected in the first half of 2019, primarily due to carry-over inflation. Acquisition-related sales are forecasted to add about $15 million of sales growth primarily from the SEM acquisition. Based on current exchange rates, we expect foreign currency translation to have an unfavorable impact on segment sales of about $100 million.

Additionally, further selling price increases in 2019 are expected as we work to continue to offset the cumulative impact of raw material inflation over the past nine quarters. Net sales in this segment are expected to be lower by approximately 200 to 250 basis points or $50 to $55 million in both the first and second quarters due to the customer assortment change that occurred in 2018. The impact will be larger than the fourth quarter due to the seasonality of the U.S. DIY business.



Industrial Coatings

Fourth quarter net sales for the Industrial Coatings segment were more than $1.5 billion, down about $50 million or nearly 3 percent year-over-year. Segment sales volumes were lower by nearly 2 percent, impacted by soft industry demand in China. Selling prices increased sequentially versus the third quarter 2018 and were up nearly 2 percent compared to prior year. This segment was impacted by unfavorable foreign currency translation of about $55 million, or nearly 4 percent.

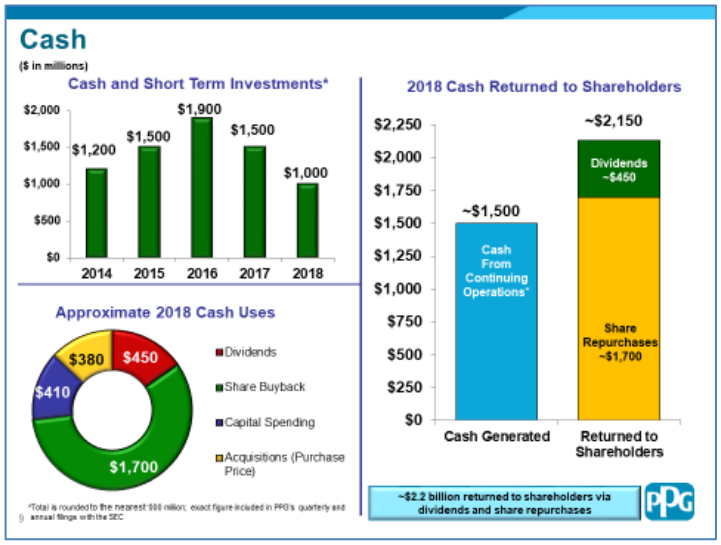
Segment income of about $185 million was down about $30 million, or about 15 percent year-over-year, including unfavorable foreign currency translation of approximately $5 million, primarily related to the Chinese yuan and the euro. Segment income benefited from improving selling prices and restructuring savings, which were more than offset by elevated raw material and logistics costs and lower sales volumes.

From a business unit perspective, sales volumes were down a mid-single-digit percentage in the automotive OEM coatings business versus the prior year, which was consistent with the overall global industry auto build rate. PPG's sales volume grew in the U.S. and Canada region. Sales in Asia were lower compared to last year, primarily due to lower automotive production in China. Global automotive industry demand is expected to remain soft in the first quarter for most regions with greater volatility expected in China.

General industrial coatings and specialty coatings and materials sales volumes were up a low-single-digit percentage in the fourth quarter. Sales volumes growth was the strongest in general industrial coatings Europe due to share gains. Sales volumes in China were impacted by lower coil, extrusion, and appliance end market demand. Selling prices continued to gain momentum. Similar to the third quarter, overall year-over-year growth in this business moderated, reflecting comparisons to strong growth in the previous year. We anticipate continued favorable general industrial demand growth trends, in aggregate, in the first quarter. In addition, we expect that the Whitford acquisition will close during the latter portion of the first quarter, pending required regulatory approvals, and therefore will not provide meaningful sales or earnings benefit in the quarter.

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

Looking ahead, we expect that greater volatility in global industrial demand will continue through the first quarter with inconsistencies by region. The carryover impact from first half 2018 cost inflation and significantly unfavorable foreign currency translation will impact first quarter earnings. The company will continue to prioritize implementing selling price increases that were announced in the fourth quarter and operating margin recovery.



Cash

PPG ended the fourth quarter with about $1 billion in cash and short-term investments. Cash generated from continuing operations was more than $800 million in the fourth quarter, and totaled approximately $1.5 billion for the full year.

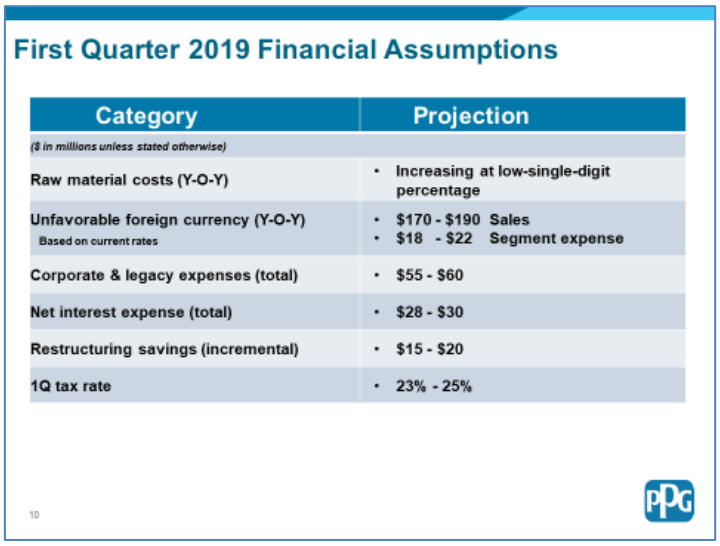
Approximate uses of cash for the fourth quarter and full year were as follows:

- Capital expenditures were about $185 million in the quarter and approximately $410 million, or about 2.5 percent of sales, for the full year. We anticipate capital spending to be in the range of 2.5 -to- 3.0 percent of sales in 2019.

- Dividends paid were about $115 million in the fourth quarter and about $450 million for the full year. In October 2018, the company raised it is per share dividend by 7 percent. PPG has paid annual dividends for 119 consecutive years, including 47 consecutive years of increased annual payouts.

- Cash spending for acquisitions completed in 2018 was about $380 million. This included the acquisitions of SEM, PaintZen, Hodij, and ProCoatings. The announced acquisitions of Whitford and Hemmelrath are expected to be completed in 2019.

- PPG stock repurchases totaled over $400 million in the fourth quarter and about $1.7 billion for the year. The company has about $1.8 billion remaining under its current share repurchase authorizations as of year-end.



First Quarter 2019 Financial Assumptions

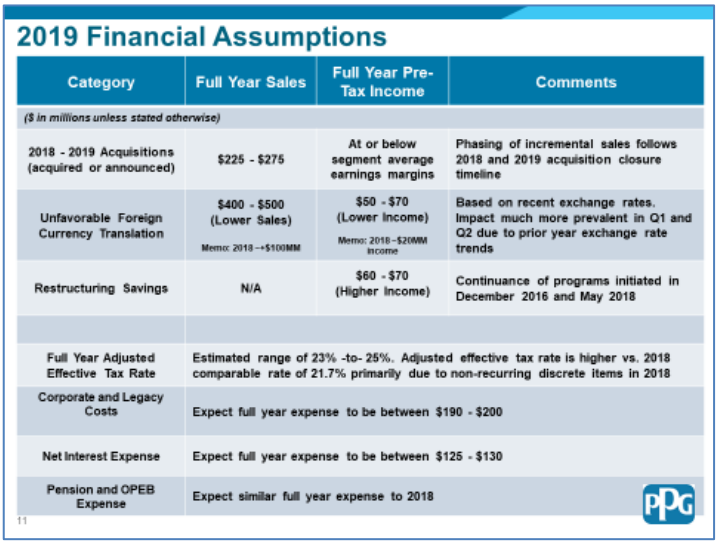
Category	Projection
($ in millions unless stated otherwise)	
Raw material costs (Y-O-Y)	• Increasing at low-single-digit percentage
Unfavorable foreign currency (Y-O-Y) Based on current rates	• $170 - $190 Sales • $18 - $22 Segment expense
Corporate & legacy expenses (total)	• $55 - $60
Net interest expense (total)	• $28 - $30
Restructuring savings (incremental)	• $15 - $20
1Q tax rate	• 23% - 25%

10

2019 Financial Assumptions

For 2019, the company is providing the following financial assumptions based on information currently known that will affect 2019 financial results:

- Acquisitions announced in 2018 and January 2019 are expected to add incremental 2019 sales of approximately $225 –to- $275 million, including the flow-through impact from acquisitions made in the 2018 calendar year until their respective acquisition anniversary date. The acquisitions will contribute at or below their respective segment margins as they are being fully integrated during 2019.



2019 Financial Assumptions

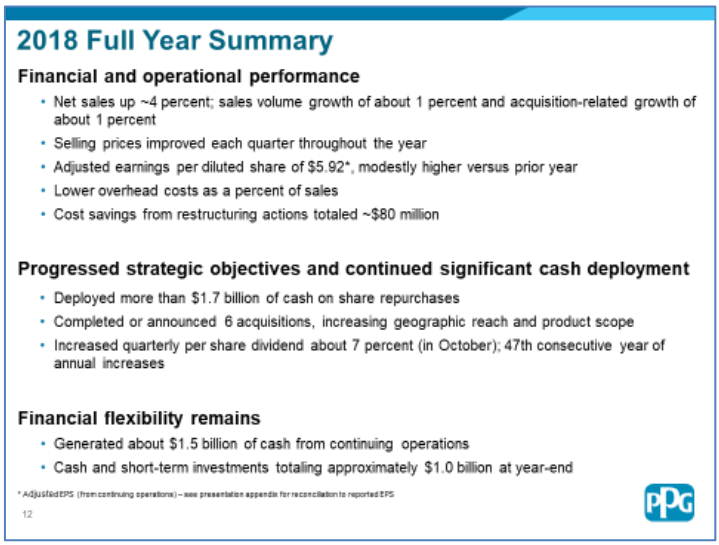
Category	Full Year Sales	Full Year Pre-Tax Income	Comments
($ in millions unless stated otherwise)			
2018 - 2019 Acquisitions (acquired or announced)	$225 - $275	At or below segment average earnings margins	Phasing of incremental sales follows 2018 and 2019 acquisition closure timeline
Unfavorable Foreign Currency Translation	$400 - $500 (Lower Sales) Memo: 2018 →$100MM	$50 - $70 (Lower income) Memo: 2018 ~$20MM income	Based on recent exchange rates. Impact much more prevalent in Q1 and Q2 due to prior year exchange rate trends
Restructuring Savings	N/A	$60 - $70 (Higher Income)	Continuance of programs initiated in December 2016 and May 2018
Full Year Adjusted Effective Tax Rate	Estimated range of 23% -to- 25%. Adjusted effective tax rate is higher vs. 2018 comparable rate of 21.7% primarily due to non-recurring discrete items in 2018		
Corporate and Legacy Costs	Expect full year expense to be between $190 - $200		
Net Interest Expense	Expect full year expense to be between $125 - $130		
Pension and OPEB Expense	Expect similar full year expense to 2018		

11

- Throughout 2018, a variety of major foreign currencies continued to weaken versus the U.S. dollar, accelerating in the second half of the year. As a result, based on recent exchange rates, the company expects that year-over-year foreign currency translation will unfavorably impact sales by $400 -to- $500 million, and pre-tax income by about $50 -to- $70 million, with significantly higher unfavorable impacts in the first half 2019 due to the timing of the underlying 2018 currency decreases. The company generally purchases raw materials, incurs manufacturing costs and sells finished products in the same currency, so it does not typically incur significant foreign currency-related transaction impacts.

- The company has two active business-restructuring programs in place targeting about $200 million in total run-rate annual savings once fully implemented. Execution against these programs is expected to result in $60 -to- $70 million of cost savings in 2019, which is in addition to the $80 million achieved in 2018.

- The company's 2019 effective tax rate on income from continuing operations is expected to be in the range of 23 -to- 25 percent. The comparable rate for 2018 was about 22 percent. The increase primarily relates to non-recurring favorable discrete items in 2018, including the release of reserves relating to statutory audits and one-time tax planning opportunities relating to the 2017 Tax Cuts and Jobs Act legislation. Other factors may affect the 2019 effective tax rate throughout the year, including changes to various tax regulations in the U.S. and abroad.



Full-Year Summary

In summary for the full year, the company generated adjusted earnings per diluted share from continuing operations of $5.92, up slightly versus the prior year. Full-year net sales increased by more than 4 percent, growing in both the Performance Coatings and Industrial Coatings segments and in each major geographic region of the world on a constant currency basis. Sales volumes increased nearly 1 percent over the prior year, led by the Industrial Coatings segment. Acquisition-related sales added nearly 1 percent year-over-year growth, with the largest contribution coming from The Crown Group.

The company continued to perform well operationally, including aggressive management of the overall cost structure. The company's selling, general, and administrative costs as a percentage of sales were about 90 basis points lower year-over-year.

Strategically, business portfolio optimization continued, including the announcement of 6 acquisitions, which will further broaden the company's geographical footprint and technology advantages.

The company continues to have excellent financial flexibility with cash and short-term investments of about $1.0 billion at year-end.

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
Fourth Quarter 2018						
Net Income Attributable to PPG as Reported	$ 256	$ 1.07	$ 2	$ 0.01	$ 258	$ 1.08
Release of business restructuring reserves	(7)	(0.03)	--	--	(7)	(0.03)
Transaction-related costs	4	0.02	--	--	4	0.02
Brand rationalization charge	4	0.02	--	--	4	0.02
Gain on the sale of a non-operating asset	(20)	(0.08)	--	--	(20)	(0.08)
Environmental remediation charges and other costs	32	0.14	--	--	32	0.14
Accounting investigation costs	2	0.01	--	--	2	0.01
Adjusted Net Income Attributable to PPG	$ 271	$ 1.15	$ 2	$ 0.01	$ 273	$ 1.16
Full Year 2018						
Net Income Attributable to PPG as Reported	$ 1,323	$ 5.40	$ 18	$ 0.07	$ 1,341	$ 5.47
Net tax benefit for Tax Cuts and Jobs Act	(13)	(0.05)	--	--	(13)	(0.05)
Environmental remediation charges and other costs	58	0.24	--	--	58	0.24
Accounting investigation costs	11	0.05	--	--	11	0.05
Impairment of a non-manufacturing asset	7	0.03	--	--	7	0.03
Brand rationalization charge	4	0.02	--	--	4	0.02
Transaction-related costs	4	0.02	--	--	4	0.02
Gain on the sale of a non-operating asset	(20)	(0.08)	--	--	(20)	(0.08)
Legacy legal settlements	8	0.03	--	--	8	0.03
Costs related to a customer assortment change	14	0.05	--	--	14	0.05
Business restructuring, net	46	0.18	--	--	46	0.18
Accelerated depreciation from restructuring actions	7	0.03	--	--	7	0.03
Adjusted Net Income Attributable to PPG	$ 1,449	$ 5.92	$ 18	$ 0.07	$ 1,467	$ 5.99

14

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 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 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. Such factors also include risks related to the impact of the restatement disclosed in our amended 2017 Annual Report on Form 10-K/A, including the impact on PPG's reputation and commercial contracts, our ability to successfully remediate the material weakness in our internal control over financial reporting disclosed in our amended Annual Report on Form 10-K/A within the time periods and in the manner currently anticipated, the effectiveness of our internal control over financial reporting, including the identification of additional control deficiencies and further expenditures related to our restatement. 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/A 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 January 17, 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.