

### 3.B CAPITALIZATION AND INDEBTEDNESS

Not applicable.

### 3.C REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

### 3.D RISK FACTORS

#### Industry and Business Risks

***The worldwide automotive market is highly competitive.***

The worldwide automotive market is highly competitive. Toyota faces intense competition from automotive manufacturers in the markets in which it operates. Competition in the automotive industry has further intensified amidst difficult overall market conditions. In addition, competition is likely to further intensify in light of further continuing globalization in the worldwide automotive industry, possibly resulting in industry reorganizations. Factors affecting competition include product quality and features, safety, reliability, fuel economy, the amount of time required for innovation and development, pricing, customer service and financing terms. Increased competition may lead to lower vehicle unit sales, which may result in a further downward price pressure and adversely affect Toyota's financial condition and results of operations. Toyota's ability to adequately respond to the recent rapid changes in the automotive market and to maintain its competitiveness will be fundamental to its future success in existing and new markets and to maintain its market share. There can be no assurances that Toyota will be able to compete successfully in the future.

***The worldwide automotive industry is highly volatile.***

Each of the markets in which Toyota competes has been subject to considerable volatility in demand. Demand for vehicles depends to a large extent on economic, social and political conditions in a given market and the introduction of new vehicles and technologies. As Toyota's revenues are derived from sales in markets worldwide, economic conditions in such markets are particularly important to Toyota.

Reviewing the general economic environment for the fiscal year ended March 2020, the economy changed from a trend of moderate expansion to a sharp slowdown due to the effects of trade frictions and the impact of COVID-19 spreading from China to North America, Europe and the rest of Asia. Automotive markets slumped in China and some emerging countries, but remained stable in developed countries and declined only slightly in the world as a whole. However, COVID-19 has begun to have a major impact, leading to the suspension of operations at factories and the suspension of business at dealers worldwide.

The changes in demand for automobiles are continuing, and it is unclear how this situation will transition in the future. Toyota's financial condition and results of operations may be adversely affected if the changes in demand for automobiles continues or progresses further. Demand may also be affected by factors directly impacting vehicle price or the cost of purchasing and operating vehicles such as sales and financing incentives, prices of raw materials and parts and components, cost of fuel and governmental regulations (including tariffs, import regulation and other taxes). Volatility in demand may lead to lower vehicle unit sales, which may result in downward price pressure and adversely affect Toyota's financial condition and results of operations.

***Toyota's future success depends on its ability to offer new, innovative and competitively priced products that meet customer demand on a timely basis.***

Meeting customer demand by introducing attractive new vehicles and reducing the amount of time required for product development are critical to automotive manufacturers. In particular, it is critical to meet customer

demand with respect to quality, safety and reliability. The timely introduction of new vehicle models, at competitive prices, meeting rapidly changing customer preferences and demand is more fundamental to Toyota's success than ever, as the automotive market is rapidly transforming in light of the changing global economy. There is no assurance, however, that Toyota will adequately and appropriately respond to changing customer preferences and demand with respect to quality, safety, reliability, styling and other features in a timely manner. Even if Toyota succeeds in perceiving customer preferences and demand, there is no assurance that Toyota will be capable of developing and manufacturing new, price competitive products in a timely manner with its available technology, intellectual property, sources of raw materials and parts and components, and production capacity, including cost reduction capacity. Further, there is no assurance that Toyota will be able to implement capital expenditures at the level and times planned by management. Toyota's inability to develop and offer products that meet customers' preferences and demand with respect to quality, safety, reliability, styling and other features in a timely manner could result in a lower market share and reduced sales volumes and margins, and may adversely affect Toyota's financial condition and results of operations.

***Toyota's ability to market and distribute effectively is an integral part of Toyota's successful sales.***

Toyota's success in the sale of vehicles depends on its ability to market and distribute effectively based on distribution networks and sales techniques tailored to the needs of its customers. There is no assurance that Toyota will be able to develop sales techniques and distribution networks that effectively adapt to changing customer preferences or changes in the regulatory environment in the major markets in which it operates. Toyota's inability to maintain well-developed sales techniques and distribution networks may result in decreased sales and market share and may adversely affect its financial condition and results of operations.

***Toyota's success is significantly impacted by its ability to maintain and develop its brand image.***

In the highly competitive automotive industry, it is critical to maintain and develop a brand image. In order to maintain and develop a brand image, it is necessary to further increase customers' confidence by providing safe, high-quality products that meet customer preferences and demand. If Toyota is unable to effectively maintain and develop its brand image as a result of its inability to provide safe, high-quality products or as a result of the failure to promptly implement safety measures such as recalls when necessary, vehicle unit sales and/or sale prices may decrease, and as a result revenues and profits may not increase as expected or may decrease, adversely affecting its financial condition and results of operations.

***Toyota relies on suppliers for the provision of certain supplies including parts, components and raw materials***

Toyota purchases supplies including parts, components and raw materials from a number of external suppliers located around the world. For some supplies, Toyota relies on a single supplier or a limited number of suppliers, whose replacement with another supplier may be difficult. Inability to obtain supplies from a single or limited source supplier may result in difficulty obtaining supplies and may restrict Toyota's ability to produce vehicles. Furthermore, even if Toyota were to rely on a large number of suppliers, first-tier suppliers with whom Toyota directly transacts may in turn rely on a single second-tier supplier or limited second-tier suppliers. Toyota's ability to continue to obtain supplies from its suppliers in a timely and cost-effective manner is subject to a number of factors, some of which are not within Toyota's control. These factors include the ability of Toyota's suppliers to provide a continued source of supply, and Toyota's ability to effectively compete and obtain competitive prices from suppliers. A loss of any single or limited source supplier or inability to obtain supplies from suppliers in a timely and cost-effective manner could lead to increased costs or delays or suspensions in Toyota's production and deliveries, which could have an adverse effect on Toyota's financial condition and results of operations.

***The worldwide financial services industry is highly competitive.***

The worldwide financial services industry is highly competitive. Increased competition in automobile financing may lead to decreased margins. A decline in Toyota's vehicle unit sales, an increase in residual value

risk due to lower used vehicle prices, an increase in the ratio of credit losses and increased funding costs are additional factors which may impact Toyota's financial services operations. If Toyota is unable to adequately respond to the changes and competition in automobile financing, Toyota's financial services operations may adversely affect its financial condition and results of operations.

***Toyota's operations and vehicles rely on various digital and information technologies.***

Toyota depends on various information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, including sensitive data, and to manage or support a variety of business processes and activities, including manufacturing, research and development, supply chain management, sales and accounting. In addition, Toyota's vehicles may rely on various digital and information technologies, including information service and driving assistance functions. Despite security measures, Toyota's digital and information technology networks and systems may be vulnerable to damage, disruptions, shutdowns due to unauthorized access or attacks by hackers, computer viruses, breaches due to unauthorized use, errors or malfeasance by employees and others who have or gain access to the networks and systems Toyota depends on, service failures or bankruptcy of third parties such as software development or cloud computing vendors, power shortages and outages, and utility failures or other catastrophic events like natural disasters. In particular, cyber-attacks or other intentional malfeasance are increasing in terms of intensity, sophistication and frequency, and Toyota may be the subject of such attacks. Such attacks could materially disrupt critical operations, disclose sensitive data, interfere with information services and driving assistance functions in Toyota's vehicles, and/or give rise to legal claims or proceedings, liability or regulatory penalties under applicable laws, which could have an adverse effect on Toyota's brand image and its financial condition and results of operations.

**Financial Market and Economic Risks**

***Toyota's operations are subject to currency and interest rate fluctuations.***

Toyota is sensitive to fluctuations in foreign currency exchange rates and is principally exposed to fluctuations in the value of the Japanese yen, the U.S. dollar and the euro and, to a lesser extent, the Australian dollar, the Russian ruble, the Canadian dollar and the British pound. Toyota's consolidated financial statements, which are presented in Japanese yen, are affected by foreign currency exchange fluctuations through translation risk, and changes in foreign currency exchange rates may also affect the price of products sold and materials purchased by Toyota in foreign currencies through transaction risk. In particular, strengthening of the Japanese yen against the U.S. dollar can have an adverse effect on Toyota's operating results.

Toyota believes that its use of certain derivative financial instruments including foreign exchange forward contracts and interest rate swaps and increased localized production of its products have reduced, but not eliminated, the effects of interest rate and foreign currency exchange rate fluctuations. Nonetheless, a negative impact resulting from fluctuations in foreign currency exchange rates and changes in interest rates may adversely affect Toyota's financial condition and results of operations. For a further discussion of currency and interest rate fluctuations and the use of derivative financial instruments, see "Operating and Financial Review and Prospects – Operating Results – Overview – Currency Fluctuations," "Quantitative and Qualitative Disclosures About Market Risk," and notes 21 and 22 to Toyota's consolidated financial statements.

***High prices of raw materials and strong pressure on Toyota's suppliers could negatively impact Toyota's profitability.***

Increases in prices for raw materials that Toyota and Toyota's suppliers use in manufacturing their products or parts and components such as steel, precious metals, non-ferrous alloys including aluminum, and plastic parts, may lead to higher production costs for parts and components. This could, in turn, negatively impact Toyota's future profitability because Toyota may not be able to pass all those costs on to its customers or require its suppliers to absorb such costs.

***A downturn in the financial markets could adversely affect Toyota's ability to raise capital.***

Should the world economy suddenly deteriorate, a number of financial institutions and investors will face difficulties in providing capital to the financial markets at levels corresponding to their own financial capacity, and, as a result, there is a risk that companies may not be able to raise capital under terms that they would expect to receive with their creditworthiness. If Toyota is unable to raise the necessary capital under appropriate conditions on a timely basis, Toyota's financial condition and results of operations may be adversely affected.

**Regulatory, Legal, Political and Other Risks**

***The automotive industry is subject to various governmental regulations and actions.***

The worldwide automotive industry is subject to various laws and governmental regulations including those related to vehicle safety and environmental matters such as emission levels, fuel economy, noise and pollution. In particular, automotive manufacturers such as Toyota are required to implement safety measures such as recalls for vehicles that do not or may not comply with the safety standards of laws and governmental regulations. In addition, Toyota may, in order to reassure its customers of the safety of Toyota's vehicles, decide to voluntarily implement recalls or other safety measures even if the vehicle complies with the safety standards of relevant laws and governmental regulations. If Toyota launches products that result in safety measures such as recalls (including where parts related to recalls or other measures were procured by Toyota from a third party), Toyota may incur various costs including significant costs for free repairs. Many governments also impose tariffs and other trade barriers, taxes and levies, or enact price or exchange controls. Toyota has incurred significant costs in response to governmental regulations and actions, including costs relating to changes in global trade dynamics and policies, and expects to incur such costs in the future. Furthermore, new legislation or regulations or changes in existing legislation or regulations may also subject Toyota to additional costs in the future. If Toyota incurs significant costs related to implementing safety measures or responding to laws, regulations and governmental actions, Toyota's financial condition and results of operations may be adversely affected.

***Toyota may become subject to various legal proceedings.***

As an automotive manufacturer, Toyota may become subject to legal proceedings in respect of various issues, including product liability and infringement of intellectual property. Toyota may also be subject to legal proceedings brought by its shareholders and governmental proceedings and investigations. Toyota is in fact currently subject to a number of pending legal proceedings and government investigations. A negative outcome in one or more of these pending legal proceedings could adversely affect Toyota's financial condition and results of operations. For a further discussion of governmental regulations, see "Information on the Company – Business Overview – Governmental Regulation, Environmental and Safety Standards" and for legal proceedings, please see "Information on the Company – Business Overview – Legal Proceedings."

***Toyota may be adversely affected by natural calamities, epidemics, political and economic instability, fuel shortages or interruptions in social infrastructure, wars, terrorism and labor strikes.***

Toyota is subject to various risks associated with conducting business worldwide. These risks include natural calamities; epidemics; political and economic instability; fuel shortages; interruption in social infrastructure including energy supply, transportation systems, gas, water, or communication systems resulting from natural hazards or technological hazards; wars; terrorism; labor strikes and work stoppages. Should the major markets in which Toyota purchases materials, parts and components and supplies for the manufacture of Toyota products or in which Toyota's products are produced, distributed or sold be affected by any of these events, it may result in disruptions and delays in the operations of Toyota's business. Should significant or prolonged disruptions or delays related to Toyota's business operations occur, it may adversely affect Toyota's financial condition and results of operations.