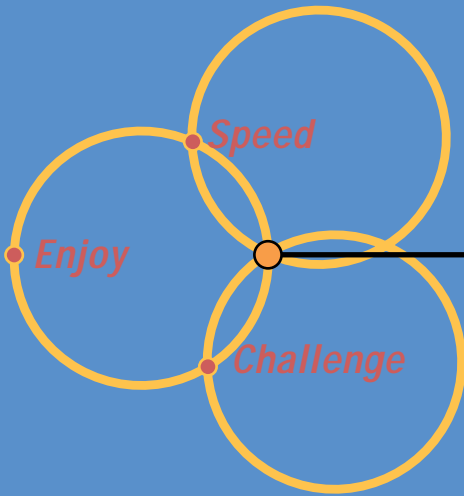




TOHO TENAX CO., LTD.
Annual Report 2002

Constant High Quality in a
Time of Great Change





OUR BUSINESS STYLE

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This annual report contains forward-looking statements that reflect management's current views with respect to certain future events and financial performance. Such statements are provided solely for the reference of the reader and are not promises, commitments or guarantees to achieve such results. Actual results could differ materially from those projected or implied in any forward-looking statements.

P R O F I L E

Since our establishment in 1934, TOHO TENAX CO., LTD. (formerly TOHO RAYON CO., LTD.) has produced a diverse range of epoch-defining fiber products based on our proprietary technologies, including TOVIS[®] rayon staple fibers, BESLON[®] acrylic fibers and GRANMARFIL[®] high-quality, combed cotton yarn.

In 1975, the Company began commercial production of BESFIGHT[®] carbon fibers, developed utilizing our acrylic fiber production technology, to establish our current position as the leading global manufacturer of carbon fibers and carry on a continuous tradition as a “technology-oriented enterprise.” Carbon fiber is a next-generation material possessing significant high-growth potential for the future, with applications spanning specialized fields such as aeronautics and aerospace, sports and recreation, and the general industry sector.

In 1998, we shifted from an emphasis on textiles to becoming a specialized producer in the carbon fiber field. We are working to further expand our core business in carbon fiber, while bolstering overall performance of the TOHO TENAX Group through the development of high value-added products for our textile business.

In February 2000, TEIJIN LTD. acquired a majority stake in the Company, forming an alliance through which we aim to realize the highly competitive strength and growth potential inherent in a corporate group. Further, we reorganized our textile business in line with our policy of “selection and concentration” through such measures as the withdrawal from the rayon fiber business field in September 2001.

Following the change of our corporate name to TOHO TENAX CO., LTD. in July 2001, the Company seeks to concentrate our management resources in the carbon fiber business to further enhance profitability.



In fiscal 2002, ended March 31, 2002, the Japanese economy faced a prolonged slump following inventory adjustments in the IT industry, which had previously fueled growth in the Japanese economy, while an onslaught of reorganization and upheaval amid a fiercely competitive environment swept the financial, distribution and construction industries. Moreover, a continuous lull in consumer spending and the impact of the September 11 terrorist attacks extended beyond the United States to the European and Asian economies to delay the onset of economic recovery.

Under such adverse conditions, TOHO TENAX CO., LTD. (the "Company") and its consolidated subsidiaries (together with the Company, "TOHO TENAX" Group) entered an implementation phase of restructuring business operations by shutting down the Tokushima rayon plant and cotton spinning plant, followed with a Group-wide reduction in personnel by 300 employees.

On a consolidated basis, net sales declined 15.4% to ¥33,651 million (US\$252,540 thousand) compared with the previous fiscal year, and the Company recorded an operating loss of ¥1,580 million (US\$11,858 thousand). An extraordinary gain of ¥6,651 million (US\$49,914 thousand) was recorded mainly due to a gain on sale and disposal of property, plant and equipment of ¥4,108 million (US\$30,829 thousand) and a gain on compensations of equipment removal of ¥2,400 million (US\$18,011 thousand). Conversely, an extraordinary loss of ¥6,562 million (US\$49,245 thousand) arising mainly from restructuring costs of ¥5,681 million (US\$42,634 thousand) resulted in a net loss of ¥1,581 million (US\$11,865 thousand) for the fiscal term. Net loss per share was ¥11.20 (US\$0.10).

Overseas sales totaled ¥7,786 million (US\$58,432 thousand), accounting for 23.1% of total consolidated sales, up 3.4 percentage points from the previous fiscal year.

By segment, net sales in the Carbon Fiber segment edged down 0.6% to ¥14,834 million

(US\$111,325 thousand), recording an operating loss of ¥1,013 million (US\$7,602 thousand). In the Textile segment, net sales dropped 32.6% to ¥12,212 million (US\$91,647 thousand), with an operating loss of ¥925 million (US\$6,942 thousand). The Machinery and Engineering segment posted a 3.7% decline in net sales to ¥5,961 million (US\$44,735 thousand) and operating income of ¥258 million (US\$1,936 thousand), which was on a par with the previous fiscal term. Net sales for the Service segment declined 0.7% to ¥2,082 million (US\$15,625 thousand), while operating income dropped 34.8% to ¥86 million (US\$645 thousand).

Total assets decreased 14.8% to ¥35,902 million (US\$269,433 thousand), while total shareholders' equity declined 13.4% to ¥8,454 million (US\$63,445 thousand) and the shareholders' equity ratio rose 0.3 percentage point to 23.5%.

Net cash used in operating activities totaled ¥1,203 million (US\$9,028 thousand), down ¥2,250 million compared with the previous fiscal term. Net cash provided by investing activities rose ¥348 million to ¥586 million (US\$4,398 thousand). Net cash provided by financing activities was ¥240 million (US\$1,801 thousand), up ¥5,604 million from the previous fiscal term. As a result, cash and cash equivalents at end of year decreased ¥333 million to ¥509 million (US\$3,820 thousand).

Medium- to Long-term Management Strategy

TOHO TENAX aims to be a "Company with a presence in the 21st century." We are undertaking concerted efforts to become a leading global manufacturer with regards to quality and volume through investment of management resources in our core carbon fiber business. Concurrently, in order to transform TOHO TENAX into a highly competitive, medium-sized corporate Group with strong growth potential we are working hard to

nurture our composite materials and environmental businesses, which are currently positioned as peripheral operations, and to pursue reorganization of the textile business.

In the carbon fiber business, management plans call for securing a manufacturing base in the United States to deploy global business strategies geared toward meeting expected long-term growth in demand. In Europe, our carbon fiber was chosen for use on high-capacity airliners scheduled for service in 2006, wherein we are working to raise our level of parts supply in line with the expansion of orders. We are also concentrating efforts on new areas where a strong potential for future growth in commercial demand is forecast, such as blades for industrial-use wind-powered generators and riser pipes for oil drilling. In the composite business, we augmented our product development capabilities with the establishment of the ACM Technology Development Laboratory in April 2002, and plan to reinforce our manufacturing framework by bringing commercial-scale composite equipment online at the Ibigawa Plant in September 2002. The composite business currently comprises roughly 20% of TOHO TENAX's non-consolidated net sales; however, we aim to raise this figure to approximately 50% by 2010 as a means of enhancing our profitability.

In the textile business, we achieved a streamlined corporate structure through the reorganization of businesses following withdrawal from the rayon fiber business and scaling down of our spinning operations. The Group companies (spinning, dye-processing, knitting and sewing) will collaborate to focus on further reducing costs and raising added-value through the development of differentiating products, while also ensuring a stable earnings structure.

In the machinery and engineering and service businesses, we plan to further expand operations in potential growth fields such as environmental analysis, machinery production



and regional services.

At the same time, TOHO TENAX will endeavor to improve overall performance by rapidly realizing synergistic effects as a result of working closely with our parent company, TEIJIN LTD.

In the current fiscal year, an increase in demand for carbon fiber is expected for applications in the general industry sector, while the textiles business will likely benefit from the effects of business reorganization carried out in the term under review. These factors are projected to result in consolidated net sales of ¥35,500 million and consolidated net income of ¥2,400 million.

We sincerely request the continued support and cooperation of our shareholders as we continue to work toward achieving management objectives.

奥村 國雄

Kunio Okumura
President

Carbon Fibers

Within the Carbon Fiber segment, TOHO TENAX CO., LTD. and our German subsidiary, TENAX FIBERS GmbH, manufacture and market carbon fiber, while TOHO CARBON FIBERS INC. aggressively pursues sales activities and application development through its tri-polar structure encompassing Japan, the United States and Europe.

In the fiscal year under review, the Carbon Fiber segment recorded a 0.6% decline in net sales to ¥14,834 million (US\$111,325 thousand) and an operating loss of ¥1,013 million (US\$7,602 thousand). The segment comprised 44.1% of consolidated net sales, up 6.6 percentage points from the previous fiscal term.

Note: The difference between aggregate sales and operating income by segment and total net sales and operating income is accounted for by intra-group transactions.

Aeronautics /Aerospace

In the U.S. market, a recovery in demand in the first half of the fiscal term was reflected by an increase in production of commercial airliners, while the second half witnessed a drop in sales in the wake of the terrorist attacks of September.

Despite demand in the European market following a similar course to that in the U.S. economy, the development of next-generation, high-capacity airliners by major European aircraft manufacturers has been proceeding on schedule. In relation, TOHO TENAX has been working to acquire qualifications and concentrated on developing an organizational structure to meet future growth in demand.



Sports and Recreation

Carbon fiber for golf clubs, the primary application in this field, experienced steady demand in the United States, with further increases expected as the market is energized by the new entry of a major sporting good manufacturer.

In Asian markets, including South Korea and Taiwan, demand remained steady for products such as tennis rackets and fishing rods. Conversely, sales and earnings of carbon fiber for use in golf clubs were negatively impacted by the effects of lower product prices in spite of largely stable demand.

In the domestic market, lackluster demand for golf clubs and fishing rods hampered sales growth, and the overall industry trend toward overseas relocation of production bases for such products also continued unabated.

Over the course of fiscal 2002, TOHO TENAX focused efforts on developing new products and improving product quality.



Industrial-Use Materials

In the United States, robust demand for pressure tanks offset sagging demand for IT-related applications such as computer casings, resulting in overall sales growth. Additionally, performance was solid for various applications stemming from the development of deep-sea drilling riser pipes (pipes used to extract crude oil from underground), for which demand is also expected to increase significantly in the future.

In Europe, there was a strong demand for carbon fiber in product areas such as pressure tanks, rollers for industrial printers and ships.

In the domestic market, demand for carbon fiber in the civil engineering reinforcement field remained steady, while sales of chopped fiber were sluggish on the back of lower demand for IT-related equipment. Nonetheless, development continued in applications for electrodes for Sodium Sulfur (Na-S) battery materials, blades for wind-powered generators, propeller shafts and standard fuel cell materials, all of which hold promising growth prospects.

In the composite business, TOHO TENAX pursued the development of Prepreg for aircraft and automobile component applications. Demand for rollers for industrial printers and medical applications was sluggish, whereas demand for liquid crystal production equipment applications was brisk.

In addition to existing applications in the industrial-use material field, TOHO TENAX is actively undertaking concerted efforts in the development and sale of several new promising applications to ensure future growth.



Textiles



TOHO TEXTILE CO., LTD. is responsible for the acrylic fiber BESLON[®] and textile businesses. As BESLON[®] acrylic fibers are produced from such similar raw materials as carbon fibers, TOHO TENAX produces BESLON[®] on a consignment basis for TOHO TEXTILE and sells the entire supply to the subsidiary TOHO DYRAC CO., LTD. and TOHO APPAREL CO., LTD. are responsible for dye-processing and sewing operations, respectively.

In the fiscal year under review, net sales in the Textile segment declined 32.6% to ¥12,212 million (US\$91,647 thousand) and accounted for 34.8% of consolidated net sales, down roughly 9.0 percentage points from the previous fiscal term. An operating loss of ¥925 million (US\$6,942 thousand) was recorded.

Amid continued sluggish consumer spending in the textile industry, the operating environment for this segment worsened as reflected by bankruptcies, which included leading wholesalers and supermarkets. Moreover, as for finished garments, Japanese manufacturers experienced limited growth caused by the flood of overseas products in response to market demand for lower-priced goods.

To aid the reorganization of our textile business, TOHO TENAX elected to withdraw from the rayon business, and subsequently shut down operations at the rayon plant of TOHO RAYON TOKUSHIMA CO., LTD. in September 2001, closed the Tokushima spinning plant of TOHO TEXTILE, scaled down equipment at the Ibigawa Plant and withdrew from inefficient businesses with unprofitable products while pursuing a shift toward value-added products.

In the textile materials business, sales declined due to stagnant consumption of acrylic fibers, cotton thread and rayon thread coupled with an even more challenging operating environment stemming from an increase in imports. We consolidated manufacturing equipment and worked to reduce costs through activities such as outsourcing in cooperation with both overseas and domestic companies.

In the fabrics and garments business, TOHO TEXTILE pursued development of differentiated products as well as joint materials development with TEIJIN LTD. to counter the influx of foreign imports.

Machinery and Engineering



Solvent Recovery System
TOHO CHEMICAL ENGINEERING & CONSTRUCTION CO., LTD.



Fully Automatic Dialyzer & Purifier Molding System
TOHO MACHINERY CO., LTD.

Within the Machinery and Engineering segment, TOHO CHEMICAL ENGINEERING & CONSTRUCTION CO., LTD. is responsible for providing general environmental consulting services for engineering and construction works, including environmental analysis of companies seeking ISO certification for their environmental management systems. In addition, TOHO MACHINERY CO., LTD. specializes in the manufacture of polyurethane foaming machinery, as well as produces automated manufacturing facilities for medical equipment, such as dialysis machines.

In the fiscal year under review, net sales in the Machinery and Engineering segment edged down 3.7% to ¥5,961 million (US\$44,735 thousand), and operating income was ¥258 million (US\$1,936 thousand), the same as the previous fiscal term. The segment comprised 17.0% of consolidated net sales, up 2.0 percentage points from the previous fiscal term.

Despite increased orders for dioxin analysis devices used to measure improvements in air quality, lackluster sales were recorded in the general engineering machinery business owing to factors such as stagnant private capital investment and reduced budgets among local municipalities. Sales performance was favorable for commercial-scale equipment that integrates polyurethane foaming machinery with peripheral equipment for use in producing medical and housing materials, among others.

Service



TOHO SALES CO., LTD.

In the Service segment, TOHO SALES CO., LTD. is engaged mainly in the supply of linen products to hotels and hospitals, as well as such businesses as petroleum product sales, supply of prepared meals and operation of insurance agencies.

In the fiscal year under review, net sales in the Service segment edged down 0.7% to ¥2,082 million (US\$15,625 thousand) due to the impact of a delayed recovery in consumer spending on our primary linen-supply business, while operating income fell 34.8% to ¥86 million (US\$645 thousand). This segment comprised 5.9% of consolidated net sales, up 0.8 percentage point from the previous fiscal term.

Research and development costs for fiscal 2002 totaled ¥780 million (US\$5,854 thousand) and represented 2.3% of consolidated net sales.

The R&D operations of TOHO TENAX are conducted by the Company's Production and Technology Division and Research Laboratories, together with the development divisions of respective subsidiaries. Moreover, such activities are efficiently carried out through close cooperation with TEIJIN LTD.'s related R&D facilities. Approximately 70 employees are engaged in R&D and comprise roughly 6% of total personnel.

In the Carbon Fiber segment, our carbon fiber was selected for use in the next generation of European high-capacity airplanes. This material is highly acclaimed for its unique features such as high tensile strength, high modulus and light weight. These combine to contribute to a lighter aircraft, which, in turn, has resulted in our products in general being valued for their high functionality. Additionally, TOHO TENAX conducted joint development with NGK INSULATORS, LTD. and will launch production in fiscal 2003 of a high-performance graphite felt that acts as a compact, durable next-generation Na-S battery material, which effectively utilizes surplus energy stored during the night. In fuel cells, our carbon fibers were employed on the gas diffusion electrode of the world's first commercialized fuel cell for portable lamps. In addition, we established the ACM Technology Development Laboratory in April 2002 to diversify future R&D activities in the composite business. The Company also acquired ISO14001 certification in May 2002 for the Mishima Factory, which is the major production facility for carbon fiber.

Commercialization was achieved in the Textile segment for SUNBURNER[®] acrylic fiber, which is capable of absorbing and releasing moisture, with market release planned for the current fiscal year. Additionally, in cooperation with TEIJIN LTD., TOHO TEXTILE jointly developed PARADOX[®], an ultra-lightweight polyester fabric that combines modified acrylic fiber with polyester fiber, with the trial launch scheduled for spring or summer 2003.



BOARD OF DIRECTORS AND AUDITORS

(As of June 27, 2002)

President	Kunio Okumura*
Vice President	Hidekazu Izunome*
Senior Managing Director	Yoshikuni Utsunomiya
Managing Directors	Koyu Hirono Kenji Suga
Directors	Masatsugu Sudo Hideki Nakai Toshihiro Aoyama
Standing Statutory Auditor	Atsushi Taguchi
Auditors	Akihiro Mochizuki Katsuzo Yamada

*Representative Director

CORPORATE DATA

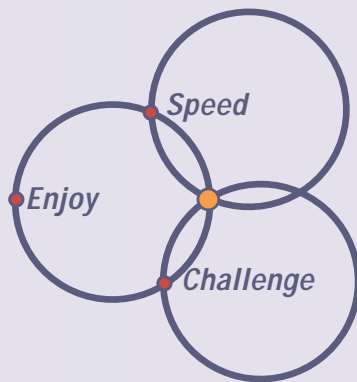
(As of March 31, 2002)

Corporate Name	TOHO TENAX CO., LTD.
Founded	June 15, 1934
Employees	414
Common Stock	
Par Value	¥50 (US\$0.40)
Authorized	200,000,000 shares
Issued	141,786,738 shares
Number of Shareholders	15,245
Head Office	Hongo TS Building, 2-38-16, Hongo, Bunkyo-ku, Tokyo 113-8404 Tel: 03-5842-3700 Fax: 03-5842-3709
Osaka Office	2-2-7, Kawara-machi, Chuo-ku, Osaka 541-0048 Tel: 06-6204-6703
Mishima Factory	234, Kamitogari, Nagaizumi-cho, Sunto-gun, Shizuoka-ken 411-0941 Tel: 055-986-1200
Tokushima Plant	8, Kawa-no-kami, Takabo-aza, Kitajimacho, Itano-gun, Tokushima-ken 771-0206 Tel: 088-641-1131
Ibigawa Plant	1801, Godo, Godo-cho, Anpachi-gun, Gifu-ken 503-2305 Tel: 0584-27-3151

CONSOLIDATED SUBSIDIARIES

(As of March 31, 2002)

TOHO TEXTILE CO., LTD.
TOHO RAYON TOKUSHIMA CO., LTD.
TOHO CHEMICAL ENGINEERING & CONSTRUCTION CO., LTD.
TOHO MACHINERY CO., LTD.
SINPO TRADING CO., LTD.
TOHO SALES CO., LTD.
TOHO APPAREL CO., LTD.
TOHO DYRAC CO., LTD.
TOHO TEX CO., LTD.
TOHO CARBON FIBERS INC.
TENAX FIBERS GmbH



TOHO TENAX CO., LTD.

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Striving to become a truly environmental company