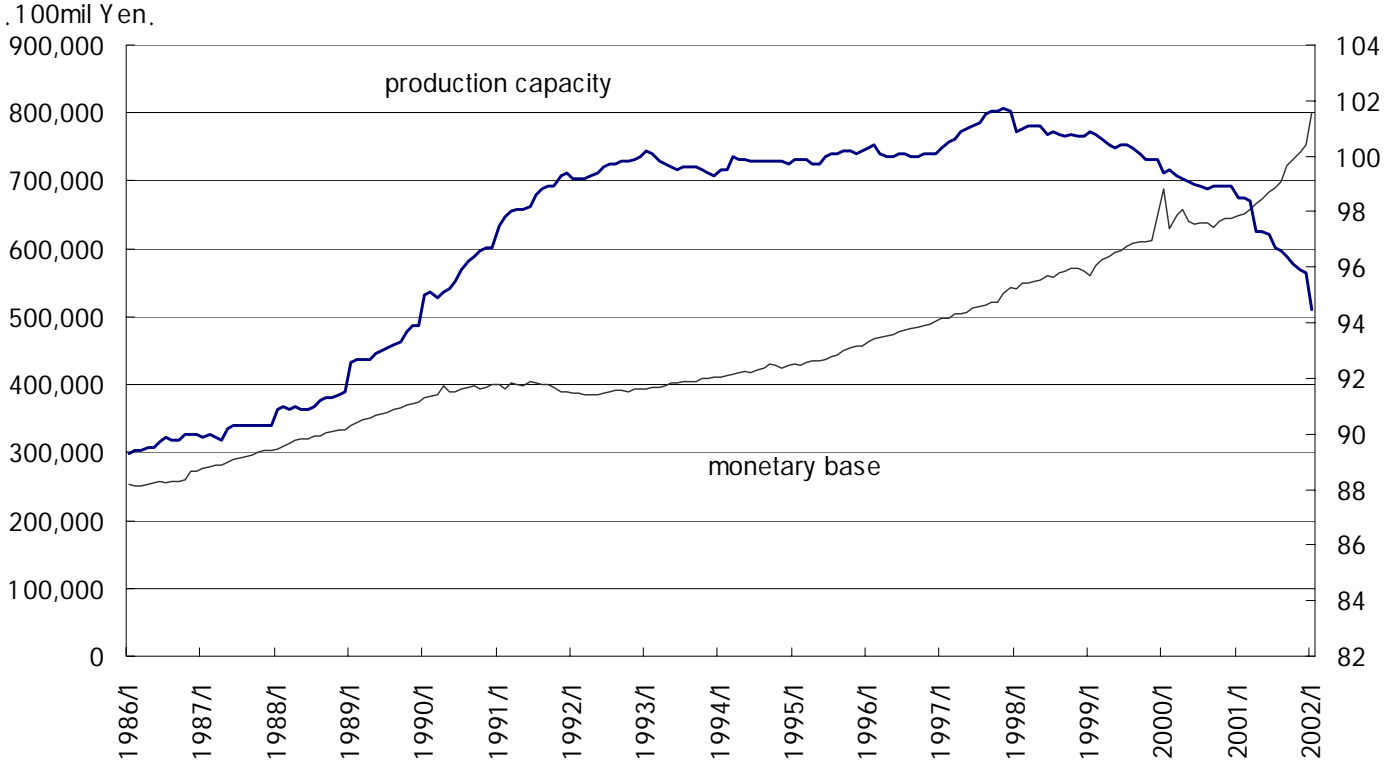


Figure 1

Japan's Production Capacity

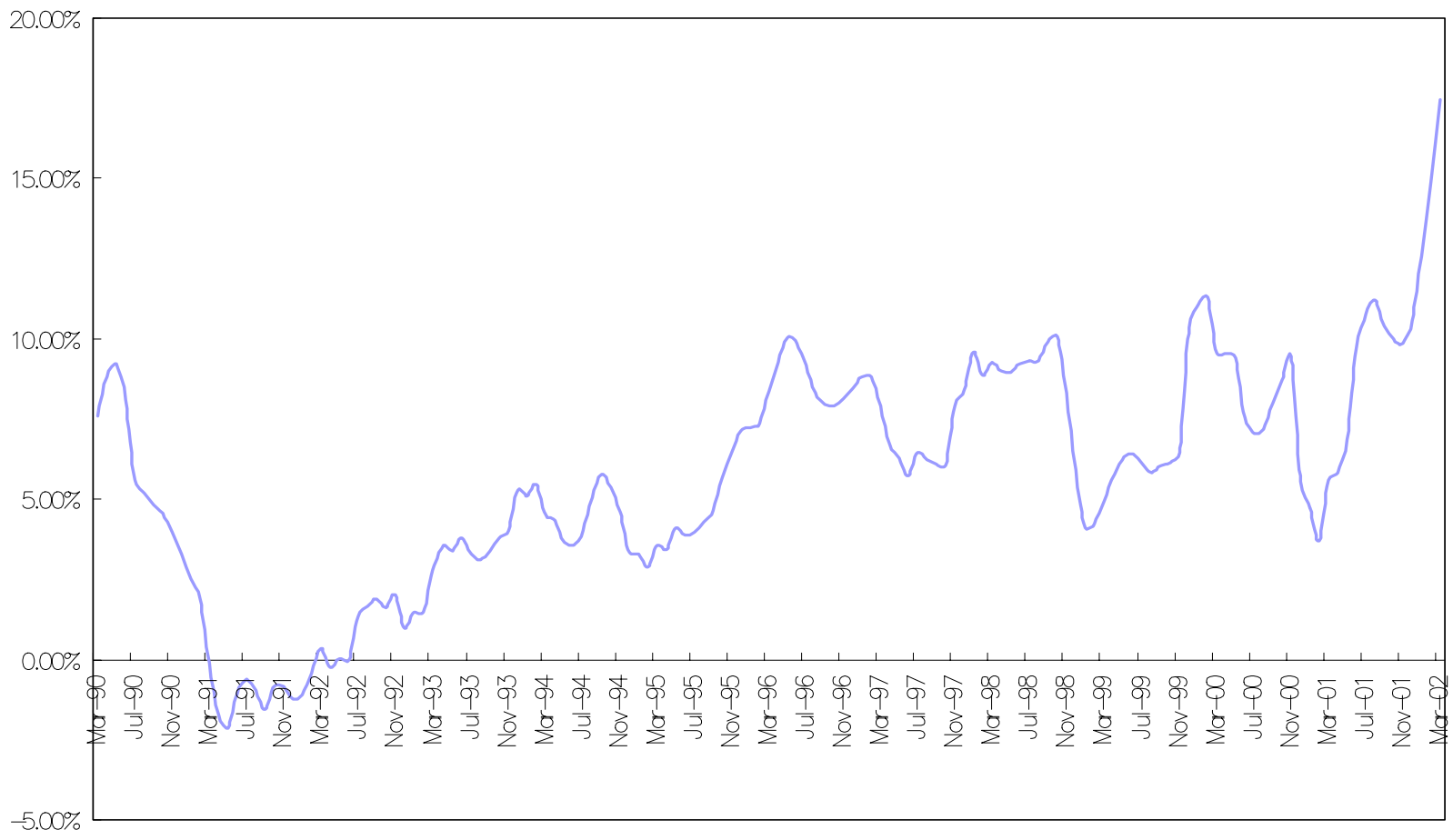


Source: Nikko Salomon Smith Barney

Figure 2

Japan : Deflation Drawing to a Close

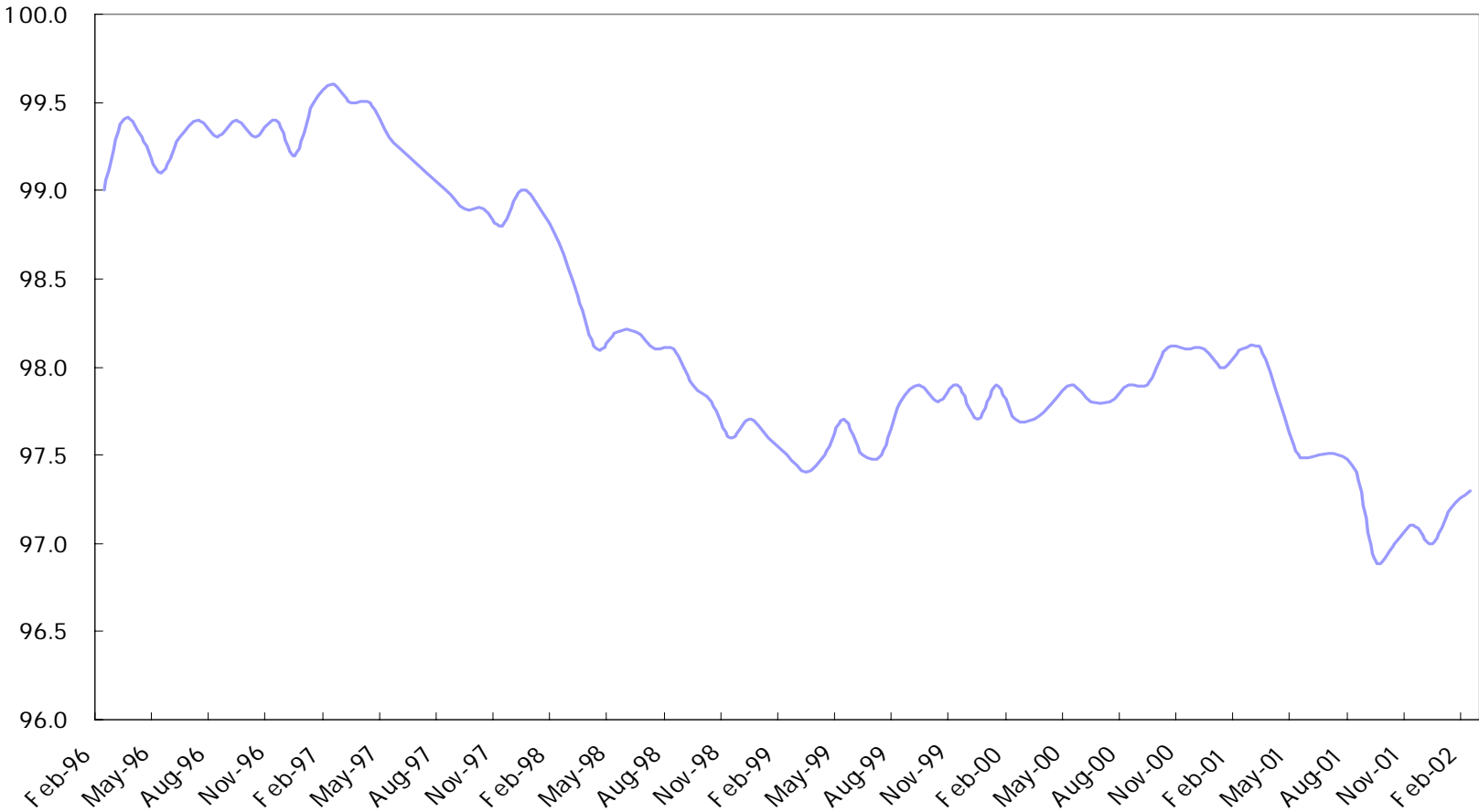
YoY Change in Bank of Japan Bills in Issue (Month End) less YoY Change in Index of Productive Capacity



Source: BoJ, METI, Nikko SalomonSmithBarney

Japan : Deflation Drawing to a Close

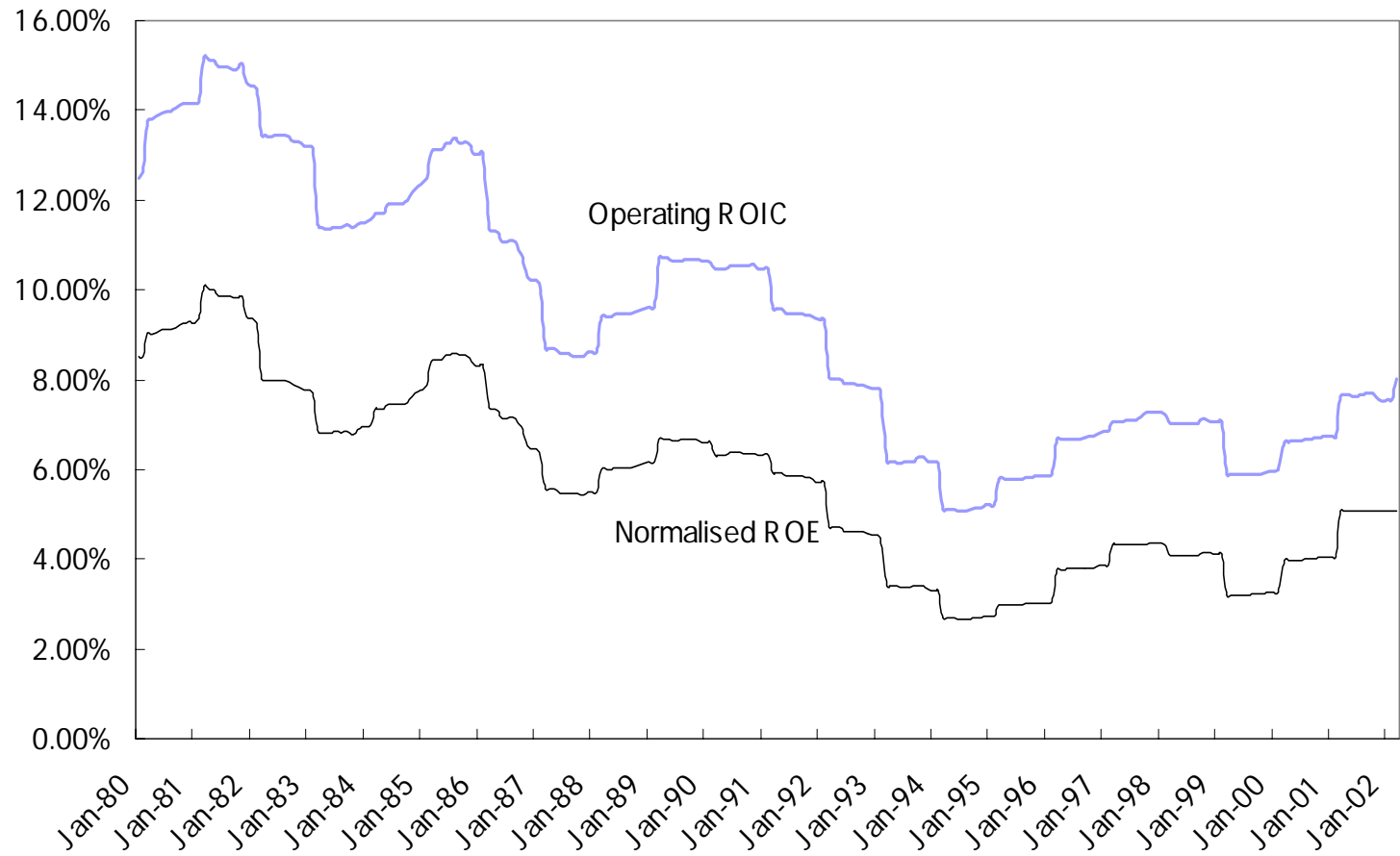
ECRI Future Inflation Gauge for Japan



Source: Bloomberg, ECRI : Economic Cycle Research Institute

Restructuring is Raising Financial Efficiency, But Too Slowly

Operating ROIC and Normalised ROE for TSE First Section Non-Financial Companies

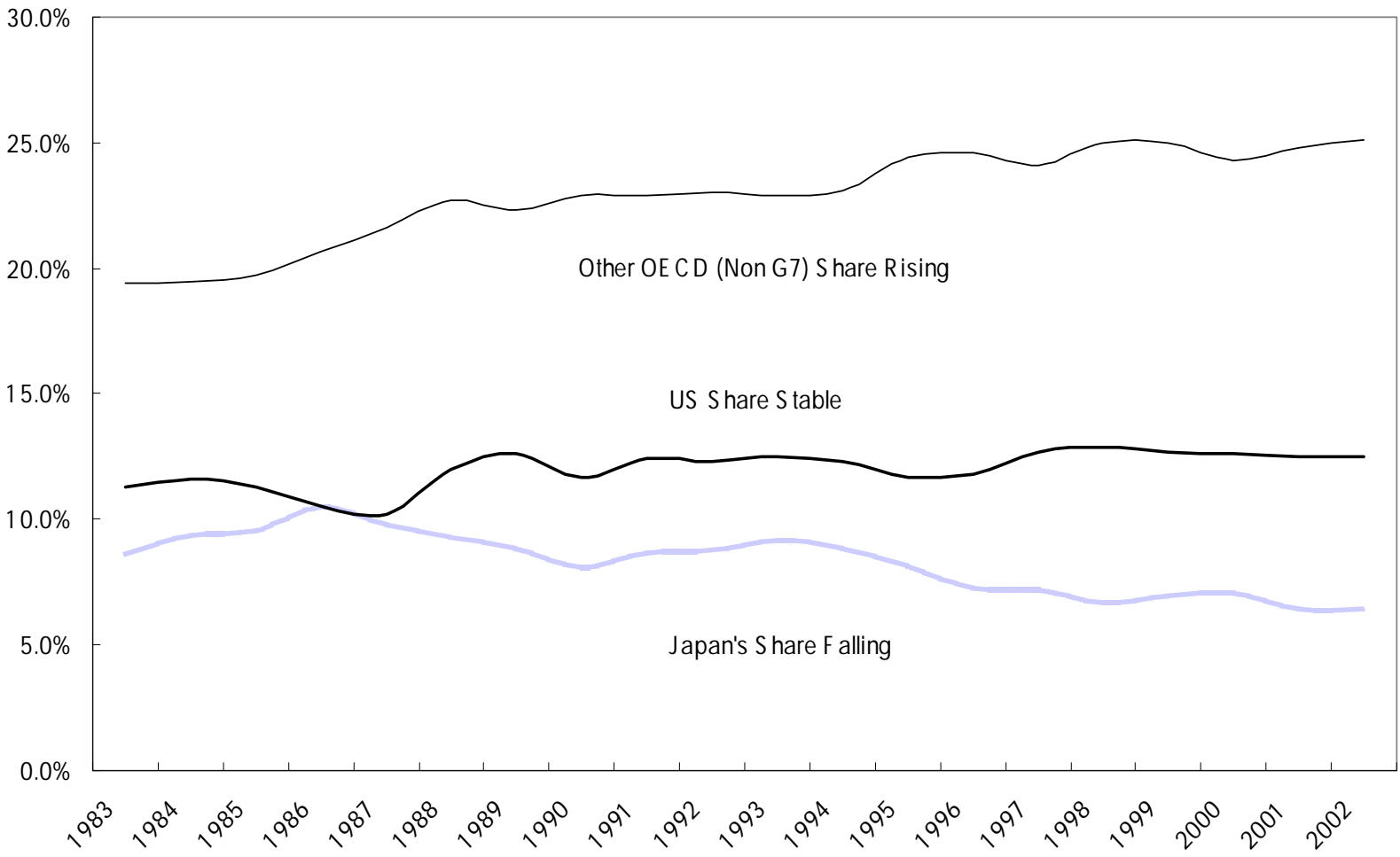


Source: Nikko Salomon SmithBarney /ROIC: Return of Operating profit on Invested Capital

Figure 5

Poor Export Performance is Not New

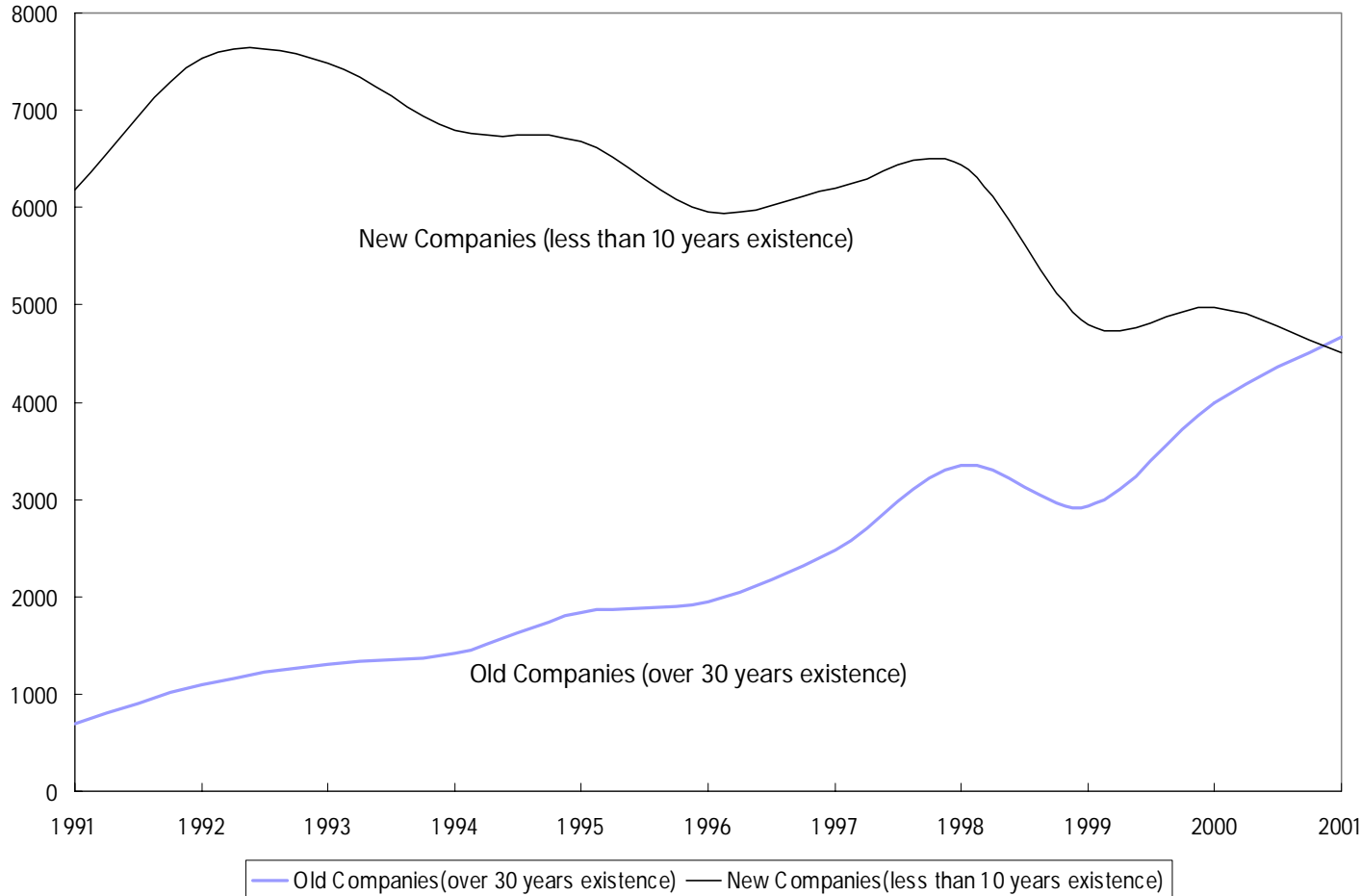
Japanese Export Performance Has Been Sub-Par since 1986



Source: OECD, Nikko Salomon SmithBarney

Some Dead Wood Is Being Cleared

Bankruptcies of “Young” and “Old” Companies: Old Companies Now Die



Source: Tokyo Shoko Research, Nikko Salomon SmithBarney

Restructuring: Actually Accelerating

Number of Restructuring Announcements

'99	Jan.	25	'00 January	14	'01 January	18	'02 January	28
	Feb.	24	February	19	February	20	February	29
	Mar	42	March	23	March	18	March	24
	Apr	30	April	15	April	13		
	May	22	May	6	May	13		
	June	17	June	19	June	6		
	July	17	July	5	July	7		
	August	21	August	13	August	17		
	September	34	September	10	September	13		
	October	31	October	24	October	36		
	November	27	November	19	November	33		
	December	20	December	12	December	37		

Politics: Bad Debt - New Policies Needed

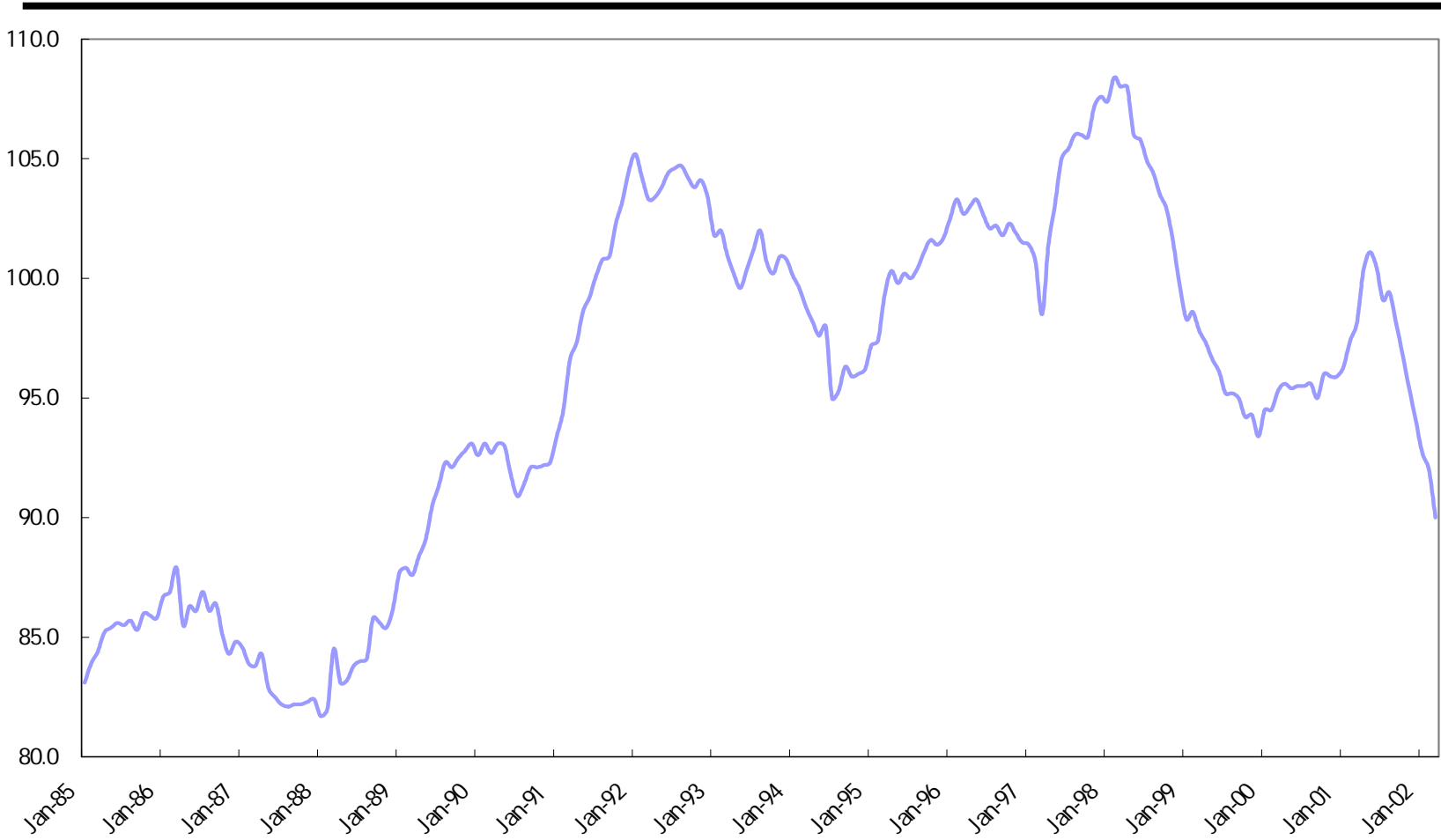
The Poor Quality of Bank Capital

As of September '01		All Major Banks	Major Banks Receiving Public Capital
Yen Million			
A	Shareholders' Funds	18,355,644	15,136,249
B	Real Estate Revaluation	1,344,071	1,132,646
C	Tax Effect Accounting	7,633,000	6,542,000
D	Public Money	5,891,000	5,891,000
E	= A-B-C-D	3,487,573	1,570,603
F	E / Total Loans	1.08%	0.57%
G	Increase in bad loans in H1 FY01	2,662,700	2,555,800
H	= G/E	76%	163%

Source: Company Reports, Nikko Salomon SmithBarney

Inventory at Lowest Level Since May 1989

Index of Producers' Inventory, All Industries



Source: METI, Nikko Salomon SmithBarney

Economic Forecast Summary

“Tough Love” or Just Tough?

	2000	2001	2002	2003	2001	Q2	Q3	Q4	2002	Q2	Q3
Annualized Pct. Chg.	FY	FY	FY	FY	Q1	act	act	EST	Q1	EST	EST
	act	EST	EST	EST	act	act	act	act	EST	EST	EST
Real Gross Domestic Product	1.7	-1.5	-0.5	0.3	4.1	-4.8	-2.1	-4.5	0.8	0.5	-0.3
Domestic Demand	1.5	-1.0	-1.4	-0.2	4.9	-3.6	-2.4	-4.2	-2.1	-0.8	-0.7
Private Domestic Final Sales	1.8	-1.2	-1.5	0.2	2.1	-2.2	-3.3	-5.5	-2.3	-0.3	-0.8
Private Consumption	-0.1	-0.1	-0.1	-0.2	7.7	-4.3	-6.7	8.0	-1.3	0.2	-1.7
Government Consumption	4.4	2.7	1.5	1.0	4.5	6.4	-1.1	2.8	0.0	3.6	0.5
Fixed Investment	3.0	-4.4	-5.4	-0.9	-0.4	-7.8	8.0	-28.5	-3.6	-5.2	0.8
Business	9.3	-2.9	-6.6	1.6	-10.4	10.7	6.7	-39.9	-6.3	-2.2	2.7
Residential	-1.5	-8.1	-0.2	-0.8	-15.3	-23.2	4.0	-0.8	0.4	0.5	-1.3
Public	-7.4	-5.8	-5.2	-6.9	40.5	-35.4	13.5	-7.8	0.7	-14.4	-2.4
Inventories (Contribution)	0.0	-0.1	-0.2	-0.1	0.1	0.0	-0.5	0.1	-0.4	-0.1	0.0
Net Exports (Contribution)	0.2	-0.5	0.9	0.6	-0.6	-1.2	0.2	-0.4	2.9	1.2	0.5
Exports of Goods & Services	9.4	-7.9	8.8	7.4	-6.9	-18.4	-11.3	-10.4	29.5	11.2	9.8
Imports of Goods & Services	9.6	-4.8	-0.2	3.4	-1.7	-10.0	-15.9	-7.9	-2.4	-0.8	7.4
Nominal GDP	-0.3	-2.9	-1.9	-0.9	2.1	-5.9	-3.2	-4.8	-3.0	-1.7	-0.4
Real Gross Domestic Product	1.7	-1.5	-0.5	0.3	4.1	-4.8	-2.1	-4.5	0.8	0.5	-0.3
Consumer Prices %YY	-0.6	-1.0	-1.3	-1.1	-0.4	-0.7	-0.8	-1.0	-1.6	-1.4	-1.5
Consumer Prices ex Fresh Food %YY	-0.5	-1.1	-1.3	-1.1	-0.8	-0.9	-0.8	-1.0	-1.6	-1.4	-1.5
Wholesale Prices %YY	0.2	0.0	0.0	-1.0	0.8	1.0	0.2	-0.7	-0.7	-0.7	0.0
Domestic %YY	0.0	-1.1	-1.1	-0.9	-0.5	-0.7	-1.0	-1.3	-1.3	-1.0	-0.9
GDP Deflator %YY	-1.9	-1.4	-1.5	-1.2	-1.6	-1.4	-1.5	-1.1	-1.6	-1.9	-1.6
Nominal Compensation of Employees	1.0	-1.6	-2.3	-0.6	0.8	0.7	-1.2	-2.8	-3.0	-3.0	-2.0
Unit Labor Costs %YY	-0.7	-0.1	-1.9	-0.9	-0.8	1.3	-0.6	-0.9	-0.3	-1.7	-1.1
Current Balance Yen bln	12,078	11,862	12,599	12,152	11,987	8,230	11,846	14,484	13,202	12,248	12,775
Note: Pct. Of GDP	2.4%	2.4%	2.6%	2.5%	2.3%	1.6%	2.4%	2.9%	2.7%	2.5%	2.6%
Trade Balance Yen bln	11,518	9,044	11,202	10,820	9,732	7,828	8,208	9,563	10,576	10,903	11,169
Note: CC Trade Balance Ybln	9,589	6,965	8,974	8,431	7,997	6,174	6,713	5,950	9,024	9,421	9,617
Services + Transfer Bal Ybln	-6,137	-6,425	-7,746	-8,603	-6,510	-6,950	-6,322	-5,370	-7,057	-8,202	-7,864
Income Balance Yen bln	6,610	9,243	9,144	9,934	7,967	7,699	9,676	9,911	9,683	9,547	9,470
Yen/US\$ (Average)	110.54	124.94	136.50	126.75	118.13	122.62	121.84	123.56	131.73	134.50	137.50
Landed Crude Oil Price \$/Barrel	29.01	23.93	23.12	22.78	28.50	27.46	26.33	21.77	20.45	22.53	23.47
Industrial Production %PP	3.8	-9.8	0.4	1.7	-3.6	-4.1	-4.2	-2.6	1.1	1.1	0.5
Unemployment rate (Level)	4.7	5.2	6.1	6.5	4.8	4.9	5.1	5.4	5.5	5.8	6.0
Ten-year JGB Yield (Average)	1.66	1.36	1.57	1.75	1.37	1.27	1.36	1.35	1.47	1.47	1.52
Unsecured Call Money Rate (Average)	0.15	0.008	0.001	0.001	0.20	0.02	0.01	0.00	0.00	0.00	0.00

Source: Nikko Salomon Smith Barney