

REGULATORY CIRCULAR NO. RG 97-101

August 6, 1997

TO: Members and Member Organizations

ATTENTION: Chief Executive Officers/Managing Partners/
Compliance Officers/Senior Registered Options Principals

FROM: Capital Markets Division

SUBJECT: Salomon Inc.
Nikkei 225 Index Securities due August __*, 2002

The aforementioned Securities are the subject of a Preliminary Prospectus Supplement and will commence trading at a date to be announced (Ticker Symbol: NXS; CUSIP NO. 79549B628).

NXS are senior unsecured debt securities of Salomon Inc. and will be issued in denominations of \$10 and integral multiples thereof. At maturity, holders of NXS will be entitled to receive, with respect to each Security, the principal amount (\$10) **plus** an amount (the ~~of~~ Supplemental Redemption Amount~~s~~) which equals the product of (A) the principal amount (\$10) of the Security, (B) the percentage change in the Nikkei 225 Index and (C) a Participation Rate*. In no event will the Supplemental Redemption Amount be less than zero. The Securities do not provide for any other payment, nor will they be redeemable or callable prior to maturity.

The Preliminary Prospectus Supplement sets forth the following formula for calculating the Supplemental Redemption Amount:

$$\text{\$10 times } \frac{[\text{Ending Index Value** minus Starting Index Value*}]}{\text{Starting Index Value*}} \text{ times Participation Rate *}$$

The purpose of this circular is to provide basic information to Members and Member Organizations regarding a proposed new issue of Nikkei 225 Index Securities and to advise of certain compliance responsibilities when handling transactions in these securities. This is not a sales document and is not intended to be distributed to customers.

* To be announced at the time of the initial public offering.

** The Ending Index Value (EIV), as more fully described in the Preliminary Prospectus Supplement, will equal the average of the values of the Nikkei 225 Index at the close of the market on five business days before the maturity of the Securities, or fewer than five days in the event of a disruption in the trading of the stocks comprising the Index or certain instruments linked to the Index.

NIKKEI 225 INDEX:

The Nikkei 225 Index is calculated, published and disseminated by Nikon Keizai Shimbun, Inc. and measures the composite price performance of selected Japanese stocks. The Index is currently based on 225 highly capitalized stocks trading on the Tokyo Stock Exchange (TSE) representing a broad cross-section of Japanese industries. All 225 stocks are listed in the First Section of the TSE. Stocks in the First Section are among the most actively traded on the TSE. Futures and options contracts on the Nikkei 225 Index are traded on the Singapore International Monetary Exchange Ltd., the Osaka Securities Exchange and the Chicago Mercantile Exchange.

The Nikkei 225 is a modified, price-weighted index that is calculated once per minute during TSE trading hours. The stock prices used in the calculation of the Index are those reported by the primary market for the underlying stocks, currently the TSE.

Due to the time zone difference, on any normal trading day the TSE will close prior to the opening of business in the U.S. on the same calendar day. Therefore, the closing level of the Nikkei 225 Index on such trading day will generally be available in the U.S. by the opening of business on the same calendar day.

CERTAIN RISK FACTORS:



If the Ending Index Value does not exceed the Starting Index Value, holders of NXS will only receive the principal amount (\$10 per Security) at maturity, and no Supplemental Redemption Amount, even if the value of the Index at some point between the issue date and maturity date exceeded the Starting Index Value.



The Securities do not bear periodic payments of interest. Because the Ending Index Value of the Nikkei 225 Index may be less than, equal to or only slightly greater than the Starting Index Value, the effective yield to maturity on the Securities (which is linked to the amount by which such Ending Index Value exceeds such Starting Index Value) may be less than that which would be payable on a conventional fixed-rate debt security of the Issuer. In addition, the return of only \$10 in respect of each Security held at maturity may not compensate the holder for any opportunity cost implied by inflation and other factors relating to the time value of money.










Any return on the Securities will be based on the appreciation of the Nikkei 225 Index, and not on dividends paid on the stocks underlying the Index. Therefore, the yield to maturity on the Securities will be less than the yield on the underlying stocks from the period from the date of issue of the Securities to maturity if the product of the Participation Rate and the appreciation of the Index does not exceed the sum of the appreciation of the Index and the dividends paid on the underlying stocks during such period.



The trading value of NXS may be affected by a number of interrelated factors including, among other things, the creditworthiness of the Issuer, changes in the level of interest rates, the volatility of the Index, the time remaining to maturity, dividend rates on the stocks comprising the Index, as well as political, economic and other developments affecting the stocks included in the Index.

OTHER IMPORTANT INFORMATION:

-  Investors should consider the tax consequences of investing in NXS. See  Certain United States Federal Income Tax Considerations  in the Preliminary Prospectus Supplement.
-  The Securities are backed only by Salomon Inc. and do not give NXS holders the right to receive any of the stocks comprising the Index.
-  Ownership of NXS will be maintained in book-entry form by or through The Depository Trust Company ( DTC ). Beneficial owners will not have the right to receive physical certificates evidencing their ownership except under certain limited circumstances described in the Preliminary Prospectus Supplement.

The foregoing information has been excerpted from the Preliminary Prospectus Supplement, and the Exchange assumes no responsibility for the accuracy or completeness of such information. Members and associated persons of member organizations are advised to read both the Prospectus and the Preliminary Prospectus Supplement.

REGULATORY CONSIDERATIONS:

MARGIN AND CAPITAL REQUIREMENTS

For margin and capital purposes NXS will be considered an equity security. A long NXS position will have an initial\maintenance margin requirement equal to 50%\25% of market value, respectively. For capital purposes NXS positions will be subject to a haircut equal to 15% of market value. There are no haircut offsets for related derivative securities.

Members should be aware that making markets in structured products or trading a structured product for reasons other than to hedge market-maker option activity subjects a broker-dealer to the provisions of the Securities and Exchange Commission's ("SEC") Rule 15c3-1 ("Net Capital Rule"). In order to qualify as an options hedge, the structured product must be specifically recognized as such in the Net Capital Rule, Regulation T of the Federal Reserve Board or Exchange margin rules. Members should refer to Regulatory Circular RG 97-40 for further information regarding capital requirements and structured products.

SALES PRACTICES

NXS is considered an equity security and is subject to the provisions of Rule 30.50. A customer's account is not required to be options approved. Such accounts, however, must be approved by a general partner or officer of the member organization after having exercised due diligence in learning the essential facts relative to the customer. Members and associated persons of member organizations should take such steps as may be reasonably necessary to assure that prospective purchasers of NXS reach an investment decision only after carefully considering the suitability of NXS in light of their particular financial circumstances and objectives.

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Questions regarding suitability of customers transactions in these securities should be directed to Larry Bresnahan (312) 786-7713 and questions regarding marginability should be directed to Diane Malley (312) 786-7924. General product questions should be directed to Nick Parcharidis of the Capital Markets Division (212) 803-1411.