

BROWN & WILLIAMSON TOBACCO CORPORATION

RESEARCH & DEVELOPMENT

INTERNAL CORRESPONDENCE

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SUBJECT: ORIENTAL INVENTORY DURATION STUDY/032

As previously discussed, I have projected monthly Oriental inventories and the durations, in months, of those inventories for the period 10/1/87 through 1/1/91. Data used in this study were the latest Oriental inventory dated 9/30/87 provided by Leaf Accounting, estimated average monthly usings based upon the latest sales forecasts, and 1986 and 1987 crop orders as well as a projected 1988 crop order. Our latest orders and estimated order are also based upon a 30 month duration policy, which represents a 6 month reduction in target inventories at October 1st.

Past experience shows that any particular crop years' order will be available for use in Macon two years later, and is usually moved into Macon during the first six months of the year. Therefore, for this study it was assumed that each years' order would be received in Macon in equal shipments two years later during the period January through June. For example, 1/6 of each grade ordered from the 1986 crop would be received each month January through June of 1988.

The resulting study, then, indicates the following significant points:

- During the period 10/1/87 through 10/1/88 our inventories decline to realize our desired duration reduction. At 10/1/88, and every October 1st thereafter through 1/1/91, the overall inventory represents 5-6 months of usings, reflecting the desired six month reduction.
- For the period 7/1/88 through 1/1/91, inventories will be at their lowest at January 1st, and at their highest July 1st, of any year.

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