REMARKS OF ALLEN B. KING
UNIVERSAL CORPORATION
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Before I begin my remarks, I must caution you that I will be making some forward looking statements today. Such statements are based on estimates and assumptions about future events. I urge you to read our annual report on form 10-K for the year ended March 31, 2006, for information on many of the factors that can affect those estimates and assumptions.

It is my pleasure to be with you today to reflect on a very difficult fiscal year for the Company. However, I must add that I am more pleased to discuss the new fiscal year and the efforts already begun to dramatically improve the profitability of our tobacco business and reduce our debt. Indeed, I am excited about our plans for the future, and I look forward to sharing more about our plans and the goals we hope to achieve.

Before I discuss the new fiscal year and our plans for the future, please allow me to take a few moments to review fiscal year 2006.

As you all know by now, fiscal year 2006 was extremely difficult for Universal, as we faced challenges in virtually ever sector of the Company's business. We expected some of these challenges, and I discussed them with

you a year ago. Indeed, we anticipated large crops and increased uncommitted inventories in South America and Africa. We anticipated a poor quality crop in Brazil. And, we anticipated difficult economic conditions in Europe would present obstacles for our prosperity in fiscal year 2006. All of those predictions came true.

Unfortunately, there were a number of other factors that also contributed heavily to the decline in earnings compared to fiscal year 2005. Let's examine them briefly before we discuss the new fiscal year:

- **In Brazil, we weathered a figurative "perfect storm" of over-production, poor quality crops – the worst we've seen in 20 years I should add – and the continued strengthening of the Brazilian currency relative to the U.S. dollar. Any one of these conditions would have been challenging for our business, but the combined effect significantly pressured margins and reduced our profitability throughout the fiscal year.**
- **Weather-related low yields in the Company's flue-cured growing projects in Malawi and Zambia increased our costs for that tobacco and greatly eroded our profit margins.**
- **In addition to the oversupply of lower quality flue-cured tobacco, excess world supplies of burley tobaccos – particularly leaf from**

Africa – created market conditions quite favorable to customers and put pressure on supplier margins.

- **We also recognized currency remeasurement losses in Africa that were $17 million higher than in the prior year.**
- **Provisions for uncollectible farmer advances, primarily in Brazil and Africa, were $26 million higher than the previous fiscal year, in part, reflecting crop quality and weather issues.**
- **As a result of the continued political and economic turmoil in Zimbabwe – which shows no signs of abating – we recorded a $29 million impairment charge to adjust our investment in that country to estimated fair value following deconsolidation. I believe that it is important to note that we will continue to do business in Zimbabwe. However, we now will recognize income from that subsidiary only when we receive dividends.**
- **In the United States, we recorded a $24 million restructuring charge as a result of our decision to close our Danville, Virginia processing facility due to the decline in domestic leaf tobacco production and the fact that our Nash County facility was performing well above its rated capacity.**

- **In our agri-products segment, a significant drop in almond and sunflower seed market prices caused inventory valuation and purchase commitment losses of approximately $17 million.**
- **Economic conditions in Europe, where our lumber and building products operations are based, continued to be difficult throughout much of the year and our margins came under pressure from customers.**
- **Finally, our high debt levels coupled with the steady increase in U.S. interest rates during the last year – something that likely has impacted everyone in this room on a personal level as well – increased our costs by $23 million.**

While fiscal year 2006 was extremely difficult for Universal, it wasn't all bad news. To the contrary, our company had some positive news to report, and I believe that it represents a good starting point to look toward the future and the steps we are taking to improve profitability. Indeed, some of the positive news from fiscal year 2006 came as a result of initiatives taken last year and the impact of those actions will be recognized more fully in the new fiscal year.

Let's take a moment to discuss a few of the positives.

- **Universal's tobacco operations in the United States were significantly improved due to operating efficiencies, higher sales volumes, and, in the fourth quarter, cost savings from the closing of our Danville facility.**
- **In Mozambique, our new processing facility came on-line and is now performing quite well.**
- **Excluding the losses associated with market declines in almonds and sunflower seeds, our agri-products business showed significant improvement on the strength of improved markets in rubber, cashews, and seeds. In addition, we have replaced management in a portion of the nuts sector and overhauled the contracting methods that helped to produce the losses I mentioned earlier in nuts and seeds. Still, the problems in the agri-business sector will take time to fully resolve as the changes we are implementing are a work-in-progress.**
- **Furthermore, our plan to significantly reduce costs by rationalizing lower return operations around the world showed some benefits in fiscal year 2006. The actions taken last year in that area, combined with our program to reduce tobacco and corporate overhead, will reduce operating costs even more in fiscal year 2007. In fact, we**

anticipate that operating costs in fiscal year 2007 should be $25 million lower than they would have been otherwise as a result of our actions in the last fiscal year. However, I must note that other factors will offset some of those savings. For example, new accounting requirements for stock-based compensation will increase costs primarily early in the year, concurrent with the date of grant of those stock-based awards.

With the news of fiscal year 2006 behind us, I want to spend the remainder of our time together this afternoon discussing fiscal year 2007 and beyond. First and foremost, I want you to know that our company is fundamentally sound. We are focused to meet and address the challenges that await us around the world. Just as important, we are prepared to take full advantage of the opportunities that also await us. I believe the Company is poised to achieve solid returns in the future.

Although the new year offers promise for improved profitability for Universal, fiscal year 2007, nonetheless, will be a year of transition. Transition means change, and significant change is what the global leaf tobacco industry has experienced in recent years. In fact, I believe it's the most change that I've seen in my 37 years in the industry.

As a result of these changes, the leaf sector is a much more complex and challenging business than it has ever been. For example:

- **Global cigarette production is essentially flat and manufacturers are using less leaf in their products. As a result, demand for our product may have peaked.**
- **Some countries, such as Zimbabwe and the United States, that have historically been reliable suppliers of high quality export leaf that our customers demanded have lost their previous luster while others have grown in stature.**
- **Mergers within the leaf industry have consolidated the sector to only two global dealers.**
- **And, perhaps most important, direct contracting around the world has virtually replaced the age-old auction markets. This has caused the Company to invest earlier in the crop cycle than ever before to acquire leaf tobacco.**

All of these issues and others have greatly thrown off the global leaf supply / demand equilibrium – an equilibrium that must be re-established if we are to improve our profitability.

Because of these complexities and changes, it means that Universal must change. Change is never easy, but it can be rewarding, and we are

taking the necessary and significant steps to improve the Company's future performance. It will take time to improve performance – remember the changes that led to our struggles in fiscal year 2006 did not occur overnight. And, during the upcoming fiscal year we won't see a return to the levels of profitability that we've come to expect. Again, returning to that level of profitability will take time.

However, I do believe that the changes we have made in the recent past and the changes that we will make in fiscal year 2007 will set the stage for improved performance this year and in the future – hence my belief that 2007 is a year of transition for the Company.

There is much work to be done in this year of transition and we have a plan to improve the profitability of the tobacco business and to reduce our debt and funds employed. Within that plan, we have set goals which we can and will achieve through focus, hard work, and dedication. I will discuss some components of our plan in a moment.

Perhaps the most important goal within our plan is also the most straightforward: to be the low cost producer and supplier of high quality leaf tobacco that can be sold at reasonable margins. Reaching that goal will improve our profitability – a benchmark that is no doubt welcomed by you and all of our shareholders.

To reach this goal, management is taking the following steps:

- **We will begin to restore the balance between leaf supply and demand by reducing crop sizes in Brazil and African countries to levels where we can make adequate margins. We will manage production to the proper levels to ensure that we can supply those customers who are willing to provide us with a reasonable margin. These actions will result in additional charges in fiscal year 2007, but we believe they are essential if we are to return the Company to appropriate profitability.**
- **We will continue to review all of our marginal operations to examine their long-term viability. Operations that do not have a firm plan for financial improvement will be shut down or reorganized.**
- **We will reduce our capital spending to a level below depreciation. Because we have completed the upgrades of our facilities around the world, we will reduce spending immediately. This will improve the cash flow in the tobacco business.**
- **As part of our continuous efforts to enhance shareholder value, we will improve our tobacco operations by focusing our attention on our core competencies, or what we do best – buying, processing, and selling leaf tobaccos. As you know, we recently announced that we**

have decided to sell our Dutch-managed non-tobacco businesses for approximately $540 million. Although those businesses have been successful and have contributed to the Company's economic performance over the years, we believe it is the right time to exit them. As I mentioned to you earlier, the changes in the global tobacco industry have made it much more complicated to navigate in recent years. To that end, we believe that we are better served going forward by focusing on our primary business rather than continuing to operate as a multi-faceted company.

- **We will reduce our debt to levels that we think are appropriate for our operations going forward by reducing crop sizes, eliminating marginal operations, and slowing capital expenditures. In the past, the Company has been comfortable with debt levels as high as 60 percent of total capitalization. Today, with a new and still evolving global tobacco market structure that has resulted from the changes I mentioned earlier, we have targeted between 35 – 45 percent of debt to total capitalization. We believe that the sale of the non-tobacco businesses will bring us to the top of that range. In fact, if you look at our balance sheet at March 31, 2006, you will see that our total debt to total capitalization was about 54 percent. Reducing debt by more**

than $500 million from the sale of the non-tobacco business will move that measure to about 42 percent. I would also like to note that we believe that reducing debt will help the Company to first stabilize and then improve our credit position going forward.

- **We will work to maximize our free cash flow so that it can be used to further enhance our business and shareholder value. I'd like to add that we anticipate generating positive free cash flow in fiscal year 2007. And, as we generate positive free cash flow, we will employ our normal discipline of expanding our tobacco business if we can earn proper returns on our investment. In the absence of such opportunities, we will return the funds to shareholders through dividends or through share repurchase within the constraints of our target capital structure.**
- **Finally, we will continue to operate our global business operations within the bounds of the law and our own ethics policies. As you may know, earlier this year we disclosed activities reported to us on our ethics hotline involving the possible violation of certain laws. Since then, we have been cooperating with the appropriate U.S. authorities in investigating these activities. Furthermore, we are taking actions to ensure that no such problems occur in the future. We will continue**

to emphasize adherence to the highest moral and ethical standards. Let me assure you that any deviation from our standards will not be tolerated.

As you can tell, we have a lot of work to do in fiscal year 2007 – a year of transition for Universal. However, I believe that this year of transition sets the stage for improved profitability for the Company in the years ahead. To achieve greater prosperity, we must rethink our corporate goals and objectives. As a result, we will witness many changes in our business in the new fiscal year. Our plan for change is set and let me reiterate that 2007 will be a year in which we:

- **Continue to build on the steps taken in fiscal year 2006 to improve our financial position;**
- **Focus our time and energies on our primary business – purchasing, processing, and selling leaf tobacco;**
- **Work to re-establish a global leaf tobacco supply / demand equilibrium;**
- **Improve or eliminate all marginal operations;**
- **Improve our cash flow and reduce our debt levels;**
- **Operate our businesses under the highest ethical and moral standards and always within the boundaries of the law.**

- **And, 2007 will be a year in which we work to achieve our most important goal: to vastly improve our profitability by being the low cost producer and supplier of high quality leaf tobacco that can be sold at reasonable margins.**

Achieving all these goals will enable us to maximize shareholder value – a commitment that we all share at Universal.

Ladies and gentlemen: I am confident in our plan for the future and its components. More importantly, I am confident that that we will achieve great success from this plan with the support of our committed employees and our loyal customers around the world.

In conclusion, I would like to thank all of our employees for their hard work and dedication during this difficult year. It is my privilege to work with a group of individuals who care so deeply for our company and who are committed to its future success.

I also would like to thank our valued long-term customers for their business and support. We will reward that business and support by continuing to provide them with high quality products and unmatched customer service.

Most importantly, I would like to express my deep appreciation to you, our shareholders, for your continued support and patience. I am confident that your dedication to Universal during this most challenging year will be rewarded in the future as we achieve our goal of improved profitability.