

**REMARKS OF ALLEN B. KING
UNIVERSAL CORPORATION
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UNIVERSAL IS THE WORLD'S LARGEST INDEPENDENT LEAF TOBACCO MERCHANT. THAT IS OUR PRIMARY BUSINESS, BUT WE HAVE OTHER SUCCESSFUL BUSINESSES AS WELL. OUR LUMBER AND BUILDING PRODUCTS DISTRIBUTION BUSINESS IS THE LARGEST OF ITS KIND IN HOLLAND, AND OUR AGRI-PRODUCTS BUSINESS INCLUDES SEVERAL OPERATIONS THAT ARE LEADERS IN THEIR FIELD, SUCH AS TEA WHERE WE ARE THE WORLD'S LARGEST INDEPENDENT TEA DEALER, SUNFLOWER SEEDS WHERE WE ARE THE LEADING EXPORTER OF CONFECTIONERY SUNFLOWER SEEDS IN THE UNITED STATES, AND NUTS AND DRIED FRUIT WHERE WE ARE ONE OF THE LARGEST U.S. IMPORTERS AND DISTRIBUTORS OF PRODUCTS SUCH AS CASHEWS, PINE NUTS, AND APRICOTS. BUT TOBACCO IS OUR LARGEST BUSINESS; IT REPRESENTED ABOUT 60% OF SALES AND ABOUT 85% OF OUR SEGMENT OPERATING PROFIT IN EACH OF THE LAST THREE FISCAL YEARS, AND SO MUCH OF MY DISCUSSION TODAY WILL FOCUS ON THAT AREA.

TOBACCO BUSINESS

TOBACCO DEALERS [AND THERE ARE ONLY THREE MAJOR ONES] PLAY AN IMPORTANT ROLE IN THE WORLDWIDE MARKET FOR LEAF TOBACCO WHERE WE ACT AS INTERMEDIARIES BETWEEN THE FARMER AND THE TOBACCO PRODUCT MANUFACTURER. WE PURCHASE CURED TOBACCO FROM FARMERS UNDER GROWING CONTRACTS OR FROM AUCTIONS IN A NUMBER OF COUNTRIES. WE PROCESS IT BY REMOVING THE LAMINA FROM THE STEM, DRYING IT TO CUSTOMER SPECIFICATIONS, AND THEN PACKAGING IT FOR DELIVERY TO CUSTOMERS. AFTER TOBACCO IS PROPERLY PACKED IT CAN BE STORED FOR 7 - 10 YEARS, ALTHOUGH MOST MANUFACTURERS USE IT WITHIN TWO OR THREE YEARS. WE GENERALLY PURCHASE TOBACCO ON CUSTOMERS' ORDERS OR INDICATIONS AND DO NOT BUY INVENTORY FOR SPECULATIVE PURPOSES. THE BULK OF THE PROCESSED TOBACCO IN OUR INVENTORY IS "COMMITTED" – THAT IS TOBACCO THAT HAS BEEN COMMITTED TO A CUSTOMER, BUT TITLE HAS NOT YET PASSED TO THAT CUSTOMER. NORMALLY, CUSTOMERS PAY INTEREST FROM THE DATE THAT WE PURCHASE THE TOBACCO ON THEIR BEHALF, UNLESS THEY HAVE PREPAID. THUS AS AN INDUSTRY WE ARE RELATIVELY INSENSITIVE TO INTEREST RATE CHANGES. IN ADDITION, THE TRADE IS GENERALLY DENOMINATED IN U.S. DOLLARS, WHICH LIMITS EXPOSURE TO EXCHANGE RATE FLUCTUATIONS.

WE DEAL IN ALL TYPES OF TOBACCO, BUT THOSE GROWN FOR THE MANUFACTURE OF CIGARETTES ACCOUNT FOR THE MAJORITY OF OUR TOBACCO REVENUES. THE KEY TYPES OF CIGARETTE TOBACCOS ARE FLUE-CURED, BURLEY, AND ORIENTAL. FLUE-CURED (OR VIRGINIA) TOBACCO IS A

GOLDEN LEAF THAT IS CURED WITH HEAT. IT IS FOUND IN A VARIETY OF COUNTRIES BUT THE BEST QUALITY IS GROWN IN THE UNITED STATES AND BRAZIL. IT IS THE MAIN COMPONENT OF BOTH THE ENGLISH BLEND CIGARETTE, WHICH IS ALMOST COMPLETELY COMPOSED OF FLUE-CURED LEAF, AND THE AMERICAN BLEND CIGARETTE, WHICH ALSO CONTAINS BURLEY AND ORIENTAL TOBACCO.

BURLEY IS A BROWN LEAF, WHICH IS AIR-CURED IN BARNs. THE MOST FLAVORFUL BURLEY TOBACCO IS ALSO GROWN IN THE UNITED STATES AND BRAZIL. GOOD QUALITY BURLEY IS ALSO GROWN IN MALAWI AND MOZAMBIQUE.

ORIENTAL TOBACCO IS A SMALL AROMATIC LEAF GROWN MAINLY IN TURKEY, GREECE, BULGARIA, AND MACEDONIA AND IS USED IN VIRTUALLY ALL BLENDED CIGARETTES. WE DEAL IN ORIENTAL TOBACCOS THROUGH A JOINT VENTURE.

WE ARE A MAJOR SUPPLIER OF DARK TOBACCOS, WHICH ARE USED PRIMARILY FOR CIGARS, PIPE TOBACCO, SMOKELESS PRODUCTS, AND DARK CIGARETTES. DARK TOBACCOS TEND TO BE GROWN IN SMALL QUANTITIES IN A NUMBER OF DIVERSE COUNTRIES, INCLUDING INDONESIA, THE UNITED STATES, THE DOMINICAN REPUBLIC, AND BRAZIL.

THE WORLD MARKET FOR THE MAJOR TYPES OF TOBACCOS USED IN CIGARETTES IS OVER 5 BILLION KILOS, BUT NOT ALL OF IT IS TRADED INTERNATIONALLY. IN FACT, THE LARGEST PRODUCER OF FLUE-CURED TOBACCO IS CHINA, WHICH GREW AN ESTIMATED 1.8 BILLION KILOS IN 2003, BUT USES ABOUT 95% OF THAT INTERNALLY.

THE TOTAL FLUE-CURED, BURLEY, AND ORIENTAL TOBACCOS ESTIMATED TO BE AVAILABLE FOR EXPORT IS ABOUT 2.8 BILLION KILOS (GREEN WEIGHT).

MOST OF YOU ALREADY KNOW THE NAMES OF THE MAJOR TOBACCO MANUFACTURERS WHO ARE THE CUSTOMERS OF THE TOBACCO MERCHANTS, AND THESE ARE SOME OF THE BRANDS THEY PRODUCE. WE ARE A LEADING SUPPLIER TO ALL OF THE MAJOR MULTINATIONAL MANUFACTURERS AS WELL AS THE REGIONAL AND SMALLER MANUFACTURERS. THESE MANUFACTURERS RELY ON US BECAUSE WE HAVE A STRONG PRESENCE AND ACCESS TO PROCESSING FACILITIES IN EVERY MAJOR PRODUCING AREA THAT EXPORTS TOBACCO AND CAN SUPPLY THE QUALITIES AND STYLES OF LEAF THAT THEY NEED. BECAUSE OF OUR WORLDWIDE SUPPLY CAPABILITY AND LARGE CUSTOMER BASE, WE ARE ABLE TO ACHIEVE ECONOMIES OF SCALE AND EFFICIENCIES THAT WOULD BE VERY DIFFICULT FOR THE MANUFACTURERS TO ACHIEVE ON THEIR OWN.

NON-TOBACCO BUSINESS

OUR LUMBER AND BUILDING PRODUCTS DISTRIBUTION BUSINESS IS A MARKET LEADER IN HOLLAND. WE HAVE TWO BUSINESS UNITS THERE: CONSTRUCTION SUPPLY AND RETAIL SUPPLY. THE CONSTRUCTION SUPPLY UNIT SELLS A BROAD RANGE OF LUMBER AND RELATED BUILDING PRODUCTS THROUGH A NATIONWIDE NETWORK OF REGIONAL OUTLETS TO THE DUTCH CONSTRUCTION INDUSTRY. THIS UNIT ALSO OPERATES SPECIALIZED COMPANIES THAT MANUFACTURE WINDOW FRAMES, PREFABRICATED ELEMENTS, AND DOORS. THEY ALSO PROCESS AND DISTRIBUTE VALUE-ADDED SOFTWOOD PRODUCTS, AND DISTRIBUTE CEILING AND PARTITION PRODUCTS. THE RETAIL SUPPLY UNIT PROVIDES DO-IT-YOURSELF RETAILERS, HOME IMPROVEMENT STORES, AND GARDEN CENTER OUTLETS WITH A BROAD RANGE OF LUMBER AND RELATED PRODUCTS, INCLUDING SOFTWOOD, MOLDINGS, PANEL PRODUCTS, DOORS, DECORATIVE MATERIALS, FLOORS, AND GARDEN FURNITURE, AS WELL AS GARDEN TIMBERS AND GARDEN HOUSES THAT WE MANUFACTURE. SEGMENT REVENUES FOR THE SHORT TRANSITION YEAR 2004 WERE ABOUT \$600 MILLION.

OUR AGRI-PRODUCTS GROUP IS COMPOSED OF A NUMBER OF SMALLER OPERATIONS THAT FOCUS ON NICHE MARKETS. WE ARE THE WORLD'S LARGEST INDEPENDENT TEA DEALER, SUPPLYING TEA PACKERS AROUND THE WORLD. WE HAVE A SIGNIFICANT SUNFLOWER SEED BUSINESS, WHICH OPERATES PRIMARILY IN THE UNITED STATES AND SELLS SEEDS TO THE SNACK FOOD, BAKERY, AND BIRD FOOD SECTORS. WE ALSO TRADE RUBBER AND CANNED AND FROZEN FOOD AND ARE A SIGNIFICANT PLAYER IN INTERNATIONAL MARKETS FOR NUTS AND DRIED FRUIT. AGRI-PRODUCT REVENUES WERE ABOUT \$400 MILLION IN TRANSITION YEAR 2004.

STRATEGY

OUR STRATEGY IS TO ENHANCE SHAREHOLDER VALUE BY ACHIEVING SEVERAL KEY OBJECTIVES:

WE BELIEVE THAT STRONG LOCAL MANAGEMENT, FOCUSED ON BEING THE LOW COST PROVIDER OF QUALITY PRODUCTS AND SERVICES, IS ESSENTIAL TO BUILDING COMPETITIVE ADVANTAGE.

IN ORDER TO ACHIEVE GROWTH IN THE CURRENT MARKET FOR LEAF TOBACCO, WE LOOK TO CREATE MUTUALLY BENEFICIAL STRATEGIC PARTNERSHIPS WITH OUR CUSTOMERS. THESE PARTNERSHIPS WITH MAJOR MANUFACTURERS ARE ESPECIALLY APPROPRIATE TO THE LEAF TOBACCO INDUSTRY WHERE VOLUME IS A KEY FACTOR IN LONG-TERM PROFITABILITY. THEY ALSO MAKE POSSIBLE THE OPTIMIZATION OF OUR INVENTORY BY ENABLING US TO BUY ONLY THE TOBACCO THAT CUSTOMERS INDICATE THEY

WANT, WHICH REDUCES THE RISK OF HOLDING UNCOMMITTED INVENTORY DURING MARKET DOWNTURNS.

WE FOCUS ON INCREASING MARKET SHARE IN TRADITIONAL TOBACCO GROWING AREAS WHILE CONTINUING TO FIND ADDITIONAL SOURCES OF EXPORT QUALITY TOBACCO TO MEET CUSTOMER REQUIREMENTS.

WE SEEK TO MAINTAIN DIVERSIFIED SOURCES OF LEAF TOBACCO SUPPLY TO MINIMIZE RELIANCE ON ANY ONE AREA. HISTORICALLY, NORTH AMERICA, SOUTH AMERICA, AND AFRICA EACH HAVE PROVIDED BETWEEN 20% AND 30% OF THE AGGREGATE VOLUME OF FLUE-CURED AND BURLEY TOBACCO THAT WE HANDLE. HOWEVER, BECAUSE OF THE DECLINE IN ZIMBABWE CROPS, SOUTH AMERICA PROVIDED OVER 31% OF THE AGGREGATE VOLUME THAT WE HANDLED FROM THE 2003 CROP. WHILE OUR PRESENCE IN ALL OF THE MAJOR SUPPLY ORIGINS ENABLED US TO CONTINUE TO MEET CUSTOMER REQUIREMENTS DESPITE THE PROBLEMS IN ZIMBABWE, WE ARE CONTINUING TO WORK TO INCREASE SUPPLY FROM AFRICA.

WE MAINTAIN A LARGE PRESENCE IN THE MAJOR EXPORTING MARKETS FOR FLUE-CURED AND BURLEY TOBACCOS IN ORDER TO PROPERLY SUPPLY OUR CUSTOMERS. WE USUALLY PURCHASE BETWEEN 25% AND 30% OF BRAZILIAN FLUE-CURED AND BURLEY TOBACCO AND BETWEEN 35% AND 45% OF AFRICAN LEAF. WE ALSO HAVE MAJOR PROCESSING FACILITIES IN THE UNITED STATES, WHICH NORMALLY PROCESS BETWEEN 35% AND 45% OF U.S. FLUE-CURED AND BURLEY TOBACCO PRODUCTION

OUR FINANCIAL STRENGTH IS AN IMPORTANT COMPETITIVE TOOL. IT ENABLES US TO MAKE INVESTMENTS IN NEW AREAS AND NEW FACILITIES TO MEET CUSTOMER NEEDS. OUR GOAL IS TO MAINTAIN OUR CURRENT "INVESTMENT GRADE" RATING BY MOODY'S INVESTOR SERVICE AND STANDARD & POOR'S.

WE DEVELOP OUR NON-TOBACCO BUSINESSES IN MARKETS WHERE WE CAN ADD VALUE AND BE A MARKET LEADER.

FINANCIAL HISTORY

WE ARE A SOLID COMPANY IN A MATURE INDUSTRY WITH A SOUND STRATEGY. OUR BUSINESS HAS UNDERGONE SOME FUNDAMENTAL CHANGES IN THE LAST 5 YEARS, AND THE RELATIVE STABILITY OF OUR RESULTS THROUGH THAT PERIOD UNDERLINES THE STRENGTH OF OUR STRATEGY.

OUR MOST RECENT FISCAL YEAR ENCOMPASSED ONLY 9 MONTHS AS WE CHANGED OUR FISCAL YEAR TO ONE ENDING ON MARCH 31. OUR REVENUES

DECLINED IN FISCAL YEARS 2001 AND 2002, IN LARGE PART DUE TO THE CHANGE IN THE WAY TOBACCO WAS MARKETED IN THE UNITED STATES FROM AUCTION PURCHASES TO DIRECT CONTRACTING. AS A RESULT, THE LARGEST MANUFACTURERS NOW PURCHASE THEIR OWN TOBACCO AND PAY THE DEALERS TO PROCESS THE LEAF. SINCE WE NO LONGER TAKE TITLE TO THIS TOBACCO, REVENUES DROPPED. HOWEVER, MARGINS IMPROVED AS WE CONTINUED TO PROCESS THIS TOBACCO ON A FEE BASIS. BY 2003, REVENUES BEGAN TO INCREASE IN TOBACCO AND LUMBER, AND THAT CONTINUED FOR THE NINE-MONTH TRANSITION PERIOD IN 2004 COMPARED TO THE SAME NINE MONTHS OF THE PRIOR YEAR.

WE HAD SIGNIFICANT CHARGES AGAINST INCOME DURING THE PERIOD WE SHOW HERE. THE LAST TWO YEARS SHOW THE EFFECT OF THE CROP REDUCTION IN ZIMBABWE, AND THE FRONT END COST OF RAMPING UP PRODUCTION IN OTHER AREAS, PARTICULARLY IN AFRICA, WHICH SHOULD BENEFIT RESULTS IN FISCAL YEAR 2006 AND BEYOND.

WE INCURRED A TOTAL OF \$53 MILLION IN RESTRUCTURING CHARGES, \$12 MILLION FOR THE SETTLEMENT OF THE DELOACH LAWSUIT IN MAY 2003, AS WELL AS VARIOUS UNUSUAL CURRENCY GAINS AND LOSSES AND GAINS ON SALE OF ASSETS. ALL TOLD THERE WERE ABOUT \$70 MILLION IN NET CHARGES BEFORE TAXES DURING THE FIVE YEARS. WE ABSORBED THOSE CHARGES AND MAINTAINED A STRONG INCOME PICTURE OVER THE PERIOD. OUR RETURN ON BEGINNING SHAREHOLDERS' EQUITY REMAINS STRONG.

OVER THE LAST FIVE YEARS, OUR STRONG CASH FLOW HAS BEEN EARMARKED FOR INVESTMENTS TO INCREASE SOURCING OF TOBACCO IN AFRICA, TO INCREASE THE EFFICIENCY OF OUR U.S. OPERATIONS, TO EXPAND OUR LUMBER AND BUILDING PRODUCTS GROUP, AND TO PAY DIVIDENDS AND REPURCHASE COMMON SHARES. DURING THE FIVE YEARS, WE HAVE PURCHASED ABOUT \$240 MILLION OF OUR COMMON STOCK, AND IN DECEMBER WE DECLARED OUR 33RD ANNUAL INCREASE IN DIVIDENDS. OUR CAPITAL SPENDING REACHED A PEAK IN 2003 WITH AN INVESTMENT OF ABOUT \$140 MILLION IN OUR U.S. OPERATIONS. THE RATE OF SPENDING FOR TRANSITION YEAR 2004 AND SO FAR IN FISCAL YEAR 2005 IS CONSIDERABLY LOWER. OUR WORKING CAPITAL INVESTMENTS HAVE BEEN SIGNIFICANT IN THE LAST TWO YEARS AS WE SPONSORED INCREASED PRODUCTION IN AFRICAN COUNTRIES AND FUNDED THE PURCHASE OF A VERY LARGE, LATE BRAZILIAN CROP IN THE CURRENT SEASON. BECAUSE THE MARKETS FOR OUR NEW SOURCES OF TOBACCO ARE NOT AUCTION BASED, THE WORKING CAPITAL NEEDED TO PRE-FUND CONTRACT FARMERS WILL CONTINUE TO BE HIGHER THAN IT HAS BEEN IN THE PAST IN THESE AREAS. THESE INVESTMENTS SHOULD STABILIZE AS WE REACH VIABLE CROP SIZES. WE EXPECT TO SEE THE BENEFITS FROM THESE INVESTMENTS IN THE FORM OF SIGNIFICANTLY LARGER VOLUMES OF AFRICAN LEAF BEGINNING IN FISCAL YEAR 2006.

IT IS DIFFICULT TO HAVE A TRUE SENSE OF WHAT IT MEANS TO INVEST IN A GROWING PROJECT OR A NEW FACTORY IN A DEVELOPING AFRICAN COUNTRY. PERHAPS, THESE BEFORE AND AFTER PHOTOS OF OUR GROWING PROJECT IN ZAMBIA AND OUR FACTORY CONSTRUCTION IN MOZAMBIQUE WILL GIVE YOU A BETTER IDEA OF WHAT IS INVOLVED BEGINNING WITH CLEARING JUNGLE AND BUILDING INFRASTRUCTURE INCLUDING ROADS, DAMS, SCHOOLS AND HOSPITALS TO ACCOMMODATE THE THOUSANDS OF WORKERS AND THEIR FAMILIES WHO WILL DERIVE EMPLOYMENT AND INCOME FROM THESE PROJECTS.

FIRST QUARTER 2005

NOW, LET ME TURN TO THE FIRST QUARTER OF FISCAL YEAR 2005. LATE RECEIPT OF THE BRAZILIAN CROPS AND SHIPPING DELAYS IN SOUTH AMERICA AND AFRICA HAD A MAJOR IMPACT ON FIRST QUARTER EARNINGS. NET INCOME FOR THE FIRST QUARTER OF FISCAL YEAR 2005, WHICH ENDED ON JUNE 30, 2004, WAS \$20.5 MILLION, OR \$0.80 CENTS PER DILUTED SHARE, COMPARED TO \$34.4 MILLION, OR \$1.37 PER DILUTED SHARE, FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003, WHICH IS THE MOST COMPARABLE QUARTER OF FISCAL YEAR 2004, BECAUSE OF LAST YEAR'S CHANGE IN THE FISCAL YEAR. GROSS REVENUES FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2004, WERE \$737 MILLION COMPARED TO \$787 MILLION FOR THE SEPTEMBER 2003 QUARTER.

TOBACCO RESULTS WERE SHARPLY LOWER IN THE QUARTER DUE TO THE LATE RECEIPT OF BRAZILIAN CROPS, WHICH, BECAUSE OF THEIR SIZE AND TIMING, HELPED TO CREATE A MAJOR SHORTAGE OF OUTBOUND SHIPPING CAPACITY. THE SHIPPING DELAYS WILL AFFECT THE TIMING OF QUARTERLY EARNINGS RECOGNITION, BUT WE EXPECT THE BULK OF THE CROP TO BE SHIPPED OVER THE REMAINDER OF THIS FISCAL YEAR. IN ADDITION, WE EXPERIENCED CUSTOMER-MANDATED SHIPPING DELAYS IN AFRICA. THE SOUTH AMERICAN AND AFRICAN DELAYS ALSO CAUSED MOST OF THE \$107 MILLION REDUCTION IN TOBACCO REVENUES.

SINCE THESE REGIONS REPRESENT IMPORTANT COMPONENTS OF OUR TOBACCO OPERATIONS, THE COMBINATION OF THESE FACTORS HAS CAUSED A LARGE INCREASE IN INVENTORIES, MOST OF WHICH IS COMMITTED. U.S. RESULTS WERE LOWER IN THE FIRST QUARTER AS THE APRIL-JUNE PERIOD IS NORMALLY WHEN PROCESSING OPERATIONS ARE SUSPENDED DURING THE INTERVAL BETWEEN PRODUCTION CYCLES IN THE UNITED STATES. LAST YEAR'S FIRST QUARTER, WHICH COVERED THE PERIOD FROM JULY 1 THROUGH SEPTEMBER 30, 2003, INCLUDED SEVERAL WEEKS OF PROCESSING AT THE START OF THE SEASON FOR THE 2003 CROP.

NON-TOBACCO RESULTS SHOWED GOOD IMPROVEMENT IN THE FIRST QUARTER. IN THE LUMBER AND BUILDING PRODUCTS SEGMENT, THE RETAIL SUPPLY GROUP BENEFITED FROM STRONG SPRING GARDEN PRODUCT SALES

AND PRODUCT MIX AS WELL AS CONTINUING ATTENTION TO COST CONTROL. OUR CONSTRUCTION SUPPLY OPERATIONS HAD ADDITIONAL WORKING DAYS THIS QUARTER, PRIMARILY BECAUSE OF THE TIMING OF THE ANNUAL SUMMER HOLIDAY PERIOD.

THE CONTINUED STRENGTH OF THE EURO AND INCOME FROM A SMALL DUTCH DISTRIBUTOR OF GARDEN TIMBER AND PRODUCTS, WHICH WAS ACQUIRED IN MAY 2004, ALSO CONTRIBUTED TO EARNINGS. THE SEASONAL INCREASE IN SALES, ADDITIONAL WORKING DAYS, THE STRONG EURO, AND SALES FROM THE ACQUIRED OPERATIONS ACCOUNTED FOR MOST OF THE \$26 MILLION INCREASE IN REVENUES FOR THIS SEGMENT.

AGRI-PRODUCT REVENUES AND OPERATING RESULTS WERE UP DUE TO HIGHER VOLUMES IN TEA, RUBBER AND CANNED MEAT. THESE GAINS MORE THAN OFFSET LOWER RESULTS IN NUTS AND DRIED FRUIT THAT WERE CAUSED BY SHIPMENT DELAYS.

OUR EFFECTIVE INCOME TAX RATE INCREASED TO 39.5% REFLECTING AN INCREASE IN LOCAL TAX EXPENSE IN ZIMBABWE ON LOCAL CURRENCY EARNINGS FROM THE SALE OF INVENTORY THAT HAD BEEN PURCHASED PRIOR TO THE DEVALUATION OF THE ZIMBABWE DOLLAR. IN ADDITION, EXCHANGE LOSSES RELATED TO NET MONETARY ASSETS DENOMINATED IN LOCAL CURRENCIES IN SOUTH AMERICA AND ZIMBABWE INCREASED BY APPROXIMATELY \$7.4 MILLION.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES INCREASED IN THE QUARTER DUE TO HIGHER LEGAL FEES ASSOCIATED WITH THE EUROPEAN UNION'S INVESTIGATION OF TOBACCO BUYING PRACTICES AND EXPENSES NECESSITATED BY THE IMPLEMENTATION OF THE SARBANES-OXLEY SECTION 404 REQUIREMENTS.

OUTLOOK

WE EXPECT TO HAVE A GOOD YEAR DESPITE THE LOWER RESULTS REPORTED IN THE FIRST QUARTER. THE SHIPPING DELAYS THAT WE EXPERIENCED IN BRAZIL AND AFRICA ARE PRIMARILY TIMING ISSUES, WHICH SHOULD BE OVERCOME IN THE SECOND HALF OF FISCAL YEAR 2005.

TOBACCO VOLUMES HANDLED IN SOUTH AMERICA WILL BE UP SIGNIFICANTLY. BRAZILIAN FLUE-CURED AND BURLEY CROPS ARE EXPECTED TO EXCEED 830 MILLION KILOS THIS YEAR AND RESULT IN RECORD VOLUMES HANDLED BY OUR OPERATIONS IN THAT COUNTRY. HOWEVER, DUE TO ADVERSE WEATHER, THERE WILL BE A SHORTAGE OF RIPE LEAF IN THE BRAZILIAN CROP, WHICH WILL CHANGE THE MIX OF SALES AND NEGATIVELY IMPACT MARGINS.

COMPARISONS FOR THE YEAR WILL ALSO BE DIFFICULT DUE TO THE INCLUSION OF APPROXIMATELY \$11 MILLION IN U.S. FACTORY OVERHEAD COSTS THAT WERE NOT IN THE NINE-MONTH TRANSITIONAL YEAR. WE EXPECT THE VOLUMES WE HANDLE IN THE UNITED STATES TO BE COMPARABLE TO LAST YEAR AND WE SHOULD CONTINUE TO BENEFIT FROM YIELD AND EFFICIENCY IMPROVEMENTS FROM OUR NEW STATE-OF-THE-ART PROCESSING PLANTS.

AFRICAN VOLUMES WILL REMAIN DEPRESSED FOR THE YEAR AS THE ZIMBABWE CROP CONTINUES TO DECLINE IN RESPONSE TO THE ECONOMIC AND POLITICAL TURMOIL IN THAT COUNTRY. AS I SAID EARLIER, THE BENEFITS OF OUR INVESTMENT PROJECTS TO EXPAND LEAF PRODUCTION IN A NUMBER OF OTHER AFRICAN ORIGINS ARE NOT EXPECTED TO CONTRIBUTE SIGNIFICANTLY TO OUR EARNINGS BEFORE OUR FISCAL YEAR 2006.

U. S. LEAF PRODUCTION VOLUMES CONTINUE TO SLIDE, REFLECTING NON-COMPETITIVE LEAF PRICES, AND THE ABSENCE OF ANY MEANINGFUL CHANGE IN THE FEDERAL TOBACCO PROGRAM. FOR THE FIRST TIME WE BELIEVE THERE IS A REASONABLE CHANCE THAT CONGRESS WILL PASS LEGISLATION THIS YEAR TO BUY OUT QUOTA AND ELIMINATE THE FEDERAL TOBACCO PROGRAM. IF ENACTED, SUCH LEGISLATION SHOULD STABILIZE U. S. LEAF PRODUCTION AND COULD, OVER TIME, BENEFIT THE COMPETITIVE POSITION OF U.S. LEAF IN THE WORLD MARKET.

OUR RECENT INVESTMENTS IN STATE-OF-THE-ART U.S. PROCESSING FACILITIES SHOULD ENABLE US TO OPERATE EFFICIENTLY IN THE U.S. ENVIRONMENT. WE ARE EXTREMELY PROUD OF OUR NEW PROCESSING CENTER IN NASH COUNTY, NORTH CAROLINA, WHICH WE BELIEVE TO BE THE MOST ADVANCED IN THE WORLD. I THINK THIS FILM CLIP WILL GIVE YOU A GOOD IDEA OF THE REASONS FOR OUR PRIDE.

LUMBER AND BUILDING PRODUCTS RESULTS ARE OFF TO A GOOD START, DUE IN PART TO THE CHANGE IN THE FISCAL YEAR. THE EURO REMAINS STRONG RELATIVE TO THE U.S. DOLLAR, AND WE ARE HOPEFUL THAT ECONOMIC CONDITIONS IN SOME EUROPEAN MARKETS ARE BEGINNING TO IMPROVE. THE OUTLOOK FOR THE AGRI-PRODUCTS THAT WE HANDLE HAS ALSO IMPROVED.

IN ADDITION, AS I NOTED EARLIER, THE EFFECTIVE CORPORATE INCOME TAX RATE IS EXPECTED TO BE HIGHER FOR THE YEAR, AS ARE OUR LEGAL AND PROFESSIONAL COSTS ASSOCIATED WITH THE IMPLEMENTATION OF THE SARBANES-OXLEY 404 REQUIREMENTS AND THE EUROPEAN UNION INVESTIGATION INTO TOBACCO BUYING PRACTICES.

WE BELIEVE THAT WE SHOULD BE ABLE TO SHIP THE BULK OF THE SOUTH AMERICAN AND AFRICAN CROPS BY THE END OF THE FISCAL YEAR, AND WE EXPECT ONCE AGAIN TO ACHIEVE GOOD EARNINGS PERFORMANCE FOR THE YEAR.

WE BELIEVE THAT CONTINUED PROGRESS IN THE AREAS OF IMPROVED OPERATING EFFICIENCIES AND VOLUMES ARE VITAL TO OUR FUTURE SUCCESS AND TO CREATING ADDITIONAL SHAREHOLDER VALUE.

- WE ARE COMMITTED TO BEING THE LOWEST COST LEAF PROCESSOR IN THE INDUSTRY, CAPABLE OF PROVIDING THE HIGHEST QUALITY PRODUCT TO OUR CUSTOMERS.
- OUR BUSINESS RUNS ON VOLUME. WE ARE WORKING HARD TO INCREASE OUR SHARE OF WORLD LEAF MARKETS TO MAXIMIZE THROUGHPUT IN OUR FACTORIES AND TO MAXIMIZE EFFICIENCY, AND
- WE RECOGNIZE THE IMPORTANCE OF PROVIDING THE HIGHEST QUALITY OF SERVICE TO OUR CUSTOMERS AND ARE FULLY COMMITTED TO REMAINING THE INDUSTRY LEADER IN THIS REGARD.

WE WILL CONTINUE TO FOCUS ON THESE AREAS DURING FISCAL YEAR 2005.

WE ARE PLEASED TO NOTE THAT OUR SHAREHOLDERS HAVE BEEN REWARDED FOR OWNING OUR STOCK. LAST YEAR, AS I NOTED EARLIER, WE INCREASED OUR DIVIDEND FOR THE 33RD YEAR IN A ROW, AND IN THE LAST FIVE YEARS, OUR TOTAL RETURN TO SHAREHOLDERS HAS OUTPACED THE S&P MID CAP INDEX. WE HAVE GENERATED AN ANNUAL RETURN TO SHAREHOLDERS, INCLUDING REINVESTMENT OF DIVIDENDS, OF ABOUT 17 PERCENT OVER THIS PERIOD.

OUR COMPANY HAS PERFORMED WELL IN A VERY DIFFICULT AND CHALLENGING ENVIRONMENT. WE ARE CONFIDENT THAT WE ARE WELL STRUCTURED TO DEAL WITH THE CHALLENGES OF OUR MARKETS, WE HAVE A STRATEGY THAT WORKS, AND WE ARE WELL POSITIONED TO CAPITALIZE ON OPPORTUNITIES IN THE YEAR AHEAD.