Remarks of George C. Freeman, III
Universal Corporation
2010 Annual Meeting of Shareholders
August 3, 2010

Fiscal year 2010 was truly a record year for our company. Diluted earnings per share were $5.68, up 31% from $4.32 last year. Net income was a record $168 million, up 28% from $132 million in 2009. You may recall our results in fiscal year 2009 were very good, but they were overshadowed by large currency losses in South America. In fiscal year 2010, our flue-cured and burley operations earned a record $240 million in operating income, up $51 million primarily related to lower currency losses. We saw improvement in all of our operating regions, except in the United States and dark tobacco, where volume declined. Interest costs were also $11 million lower in fiscal year 2010.

I am pleased to report that we achieved the goals that I set out last year: We increased our earnings per share, generated economic profit, maintained our strong financial position, and effectively managed our currency risk. We are also very pleased that we were able to return value to you. In November, we raised our annual dividend to $1.88 per share, giving us a current dividend yield of over 4.2%. This was our 39th consecutive annual dividend increase. During the last three fiscal years, we have repurchased common shares worth over $160 million.

Net income for our first quarter of fiscal year 2011 was $25.3 million, or $0.87 per diluted share. Although this reflected a decline of 42% compared to the same quarter last year when we earned $43.7 million, or $1.47 per diluted share, it is in line with our first quarter two years ago when we earned $21.1 million, or $0.64 per diluted share. Last year's first quarter results were exceptionally strong due to earlier shipments of Brazilian and European tobacco.

Operating income for our flue-cured and burley operations decreased by 44% to $36 million, again primarily due to shipment timing. South American volumes are also lower in the quarter as the crop is down due to the weather. Operating income for the North America segment benefited from increased sales of old crop tobacco. Operating income for our Other Tobacco Operations segment declined by about $3 million due primarily to lower results from our oriental joint venture.

We faced difficult comparisons with last year's exceptionally strong first quarter primarily due to shipment timing differences. I should note that, although we expect these differences to correct during the balance of the year, we are dealing with some challenges this year. We face a smaller Brazilian crop, margin pressures in some areas as the cost of green tobacco increases, decreased demand due to softer cigarette sales, and changes in manufacturer sourcing methods.

We have seen many changes in our industry since I joined the Company in the late 1990's. We saw the Master Settlement Agreement come into play; the U.S. system move from auctions to contract farming; and the major U.S. manufacturers begin purchasing leaf directly from farmers. We successfully worked with all of our customers to ensure a smooth transition in the U.S. marketing system. The change ultimately increased the efficiency of the entire market.

Today, we again find ourselves surrounded by change, but the primary focus is on two fronts –regulatory and structural. On the regulatory front, we are closely monitoring FDA developments and addressing issues specific to our leaf business. Although the legislation providing regulatory authority produced some immediate changes, like banning the so-called 'characterizing' flavors in cigarettes and the marketing of cigarettes as "light," it is still difficult to predict the ultimate outcome of the regulatory process. It is also possible that whatever the FDA does will influence other jurisdictions, such as the EU.

We are mindful of the World Health Organization's efforts to eradicate tobacco production and ban the use of all flavorings in tobacco products. A total ban of flavorings would have a serious impact on American blend cigarettes and would greatly decrease the demand for burley tobacco.   As you would expect, we are actively reminding politicians in our operating areas how important tobacco production is to their economies.

We believe that we are well positioned to deal with potential regulation in the United States. In addition, our personnel and factories around the world are ready and able to help our customers respond to their changing environment.

The industry's structural changes began several years ago with the consolidation of manufacturers, producing companies with huge needs for leaf at about the same time that the leaf merchant group consolidated, leaving only two global dealers. Concerns about security of leaf supply were further exacerbated by historically low inventory levels, a shortage of African burley in 2008, and rising green tobacco costs during the commodities boom. In the last 14 months, we have seen JTI and PMI source some portions of their leaf requirements directly. BAT, China, and PMI have all had internal leaf operations, to varying degrees. Only JTI did not have significant sourcing operations prior to its moves last summer. So we are used to manufacturers sourcing some of their own leaf. Going forward, our customers will continue to need quality, compliant tobacco from a stable and sustainable supply.

We are always mindful that we are accountable to you, our shareholders, and expect to make a reasonable return on our investments commensurate with the risk involved. Our profits are not a significant part of the cost of a cigarette, and we think they are a fair exchange for the value we deliver. We estimate that the cost of leaf tobacco in a pack of cigarettes is less than 10 cents, and our profit before taxes is less than a penny. That has not changed in 20 years despite the increases in the cost of leaf.

We intend to continue to meet our customers' needs and deliver adequate returns to you. We believe that we will continue to be successful for several key reasons:

- We are an independent, leaf merchant serving a broad customer base. Most of our customers do not use the entire run of the crop, so we provide them with a selection of the styles and qualities they require and sell what they don't need to others. This model has and will continue to reduce customers' costs and risk.

- We are experts in sourcing tobacco and are committed to good agricultural practices, which will be vital in a regulated world. We operate in some very challenging areas and have talented people and the infrastructure to effectively source tobacco in a compliant and sustainable manner. We invest in the communities where we operate, supporting programs that promote the health and well being of our farmers, employees, and their families.

- Through our professional dealings with farmers and our global reach, we provide stability of supply to our customers. We also work closely with farmers to achieve the stable and sustainable production levels they require. Our broad customer base and global reach allow us to work effectively with both parties.

- We are experts in processing tobacco. Our processing facilities and standards are excellent, and we work to maximize efficiencies around the world. We provide quality assurances to our customers that the tobacco was processed to the highest standards. I believe that this will also be important in a regulated environment.

- We recognize that, to be successful, we must always improve and adapt. We must constantly search for efficiencies and ways to provide our customers with additional services.
- We are financially sound, our balance sheet is strong, and our liquidity is good. We are in a great position to face today's challenges.

In May, we reported the likely reduction of our North American operating profit in fiscal year 2012 related to expiring processing contracts, and as I just noted, some of our customers are contracting directly with farmers for a portion of their leaf supply. We are working with all of our customers to replace that business where it makes sense. We are also actively reviewing our structure to ensure we are efficient. Regulation and industry changes will present challenges but also opportunities, and we will continue to add value to our customers' operations. Our knowledge and years of experience with farmers in the developing world and our attention to quality will be even more valuable in an increasingly regulated universe.