Universal Corporation
New York Investor Show
October 3, 2006

Before we begin our remarks, I must caution you that we 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.

Good afternoon – Although I'm sure that most of you know who we are and what we do, for the benefit of those who may not, I will give you a brief overview of the Company.

Universal Corporation is one of the world's leading tobacco merchants. Our company was founded over 85 years ago, and we conduct business in more than 35 countries around the world. Our stock trades on the New York Stock Exchange under the symbol UVV. On September 1, 2006, we completed the sale of our Dutch non-tobacco businesses, which represented $1.4 billion out of a total of $3.5 billion in revenues earned last year. The Dutch non-tobacco businesses included our lumber and building products distribution segment and most of our agri-products segment, including rubber, food trading, tea, and sunflower seeds.

This sale allows us to focus on our core business and competencies – the purchasing, processing and selling of leaf tobacco.

Indeed, tobacco operations have been our principal focus. As you can see in fiscal year 2006, tobacco represented 51% of our revenues and 78% of our operating income. On a pro forma basis and assuming the sale of our Dutch non-tobacco businesses, tobacco operations would have accounted for approximately 86% of revenues and all of our operating income. Agri-products does not appear on the Segment Operating Income graph because the dried fruit and nut businesses that were not sold had a loss of about $8 million, including $12 million in writedowns for inventory and purchase commitments.

As a leaf tobacco merchant, we serve as an intermediary between the farmer and the manufacturer. The leaf tobacco sector is often overlooked on the world tobacco stage and that's easily understood given the dynamics of the growing and manufacturing sectors, but we play an important role. First, we do not manufacture cigarettes or any other consumer product. Instead, we buy cured leaf tobacco from farmers either through direct contracts or on an auction market. Cured tobacco deteriorates rapidly with heat and humidity, requiring processing facilities near growing areas. We process the leaf, which means that we remove the stem from the leaf in a threshing process, and then we pack the stem and the leaf separately for sale and shipment to customers. We handle – either directly or through joint ventures – all of the types of leaf tobacco that are used to manufacture cigarettes, cigars, smokeless products, and pipe tobacco. Flue-cured and burley leaf tobaccos – the two largest components in global cigarette production – represent the majority of the leaf we purchase and process for our customers.

After the tobacco has been processed and packed, it can be stored for a number of years, in some cases as long as 10 years. Our customers typically hold tobacco inventory for 1 to 2 years to protect their blends against a crop failure and for proper aging. However, we seek to limit our tobacco inventory. It does not make financial sense for us to hold tobacco inventory expecting better markets in the future. We believe that market risk and carrying costs make that a poor proposition.

The global leaf tobacco market has been characterized by very slow growth in demand, which may have now peaked as efficiencies in use of leaf by major multinationals have offset the small amount of growth in demand for cigarettes. Although we may see growth related to market consolidation and share growth of multinational manufacturers, the global leaf market outside China has flattened. You can see the demand for leaf on the yellow line, while supply, as shown on the red line, has been more variable. In this market, increases in supply translate into unsold inventory, which is shown in the graph on the bottom.

In the last five years, markets have been relatively stable because customers have provided information to leaf dealers about their future requirements to help avoid extreme market imbalances. However, this guidance doesn't always guarantee a balance between supply and demand. For example, today we are in an oversupply situation as the industry has more than replaced the decline in Zimbabwe tobacco crops with additional production in Brazil and Africa. Much of today's oversupply is lower quality flue-cured and burley leaf resulting from two years of higher cost and lower quality Brazilian crops.

The market is fairly concentrated with two major international leaf dealers and a small group of very large multinational customers. It is also extremely competitive. The top five multinational manufacturers produce almost 45% of all the cigarettes in the world, and, in addition, China alone produces more than 30%. Our customer relationships with the major manufacturers are long standing and they are the backbone of our business. In fact, seventy to eighty percent of our business is with our top ten long-term customers.

We operate in a mature marketplace with substantial barriers to entry to the global market. In order to achieve economies of scale in our industry, one must have a strong presence in the major tobacco producing areas around the world, efficient processing factories, and multiple customers. These requirements make it difficult for new entrants to the global market and discourage vertical integration by the manufacturers.

Export tobacco is normally sold in dollars, which reduces currency risk after we have bought tobacco. However, this does not protect us against the effects of a strong local currency on leaf costs, as we have seen for the past two years in Brazil. The tobacco is simply more expensive when the local currency is strong. It is important to note that when we buy tobacco to fill a customer's order, carrying costs, including interest, are charged to the customer.

Leaf tobacco is not traded like a commodity and there are no commodity markets for tobacco. Quality and flavor of leaf tobacco fluctuate significantly from one area to another, and customer requirements vary from region to region, sometimes within a small geographical area of a country or a state. Stalk position and quality preferences vary by customer. One key to our success in the global market is our ability to market leaf from the entire run of the crop which becomes more challenging when there is an oversupply.

Tobacco is grown in a number of developing countries, particularly in Africa and South America, where it is a major export crop and a major source of hard currency for the local government. We believe that strong local management has been essential to our successful business model, and it is one factor that distinguishes us from the competition.

We work to match the farmers' crop sizes and our purchases with our customers' needs to maintain an orderly market. From time to time, we will have excess tobacco. When that happens, we can influence the size of the next year's crop to adjust supply. Brazil is a good example of such action, as we are reducing the amount of tobacco that we are contracting in that country next year to help restore overall balance to the world market. Generally over or undersupply issues are corrected in one or two crop cycles.

We believe that to perform well in our industry with its large sophisticated customers, a company must be able to service its customer's diverse needs and sources of supply on a consistent basis. We also believe that the company must have strong relationships with its customers. And, we believe that the company must be a low cost processor, while at the same time constantly improving efficiency and providing consistent quality.

Over the last five years, we have made significant investments in our businesses in order to gain efficiencies, improve quality, and to meet the ever-changing customer demands. For example, we have spent $470 million on capital projects including the construction of new processing facilities in the United States and Mozambique. We have spent over $700 million in working capital investments. And, we have also returned $290 million to shareholders through dividends and share repurchases.

The investments made in our business were strategic and necessary for our future success. We firmly believe that these investments have positioned us to both meet our customers' needs and to be a low cost processor. However, these strategic investments were funded by operating cash flow, $548 million in net debt issuance, and a $213 million preferred stock offering. The increase in debt has weakened our credit position, and we are taking steps to improve that situation. Allen will speak more about these steps in a moment.

While results from operations for the previous five-year period were generally strong, a number of unusual items affected our reported operating income.   These included charges related to settlement of an industry lawsuit, currency devaluation, restructuring and consolidation charges, a nine-month transition year, and a charge for the European Union fines. Throughout the period, our results also reflected volatility related to the impact of the Zimbabwe economy, and those operations were deconsolidated within the last fiscal year. In the first part of the five-year period, crops were in relatively close balance with demand which helped generate strong, steady operating income despite the charges. More recently, the effects of additional charges and the industry oversupply of low quality, high cost tobacco have placed pressure on our results.

In fiscal year 2006, we faced challenges in virtually ever sector of our business.

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

- In Brazil, we weathered a figurative "perfect storm" of over-production, poor quality crops – the worst we've seen in 20 years – 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.
- Low yields in our 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. We will continue to do business there. 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 were 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 increased our costs by $23 million.

While fiscal year 2006 was extremely difficult for Universal, it wasn't all bad news. Now Allen will tell you about some of the steps that we have taken and will be taking to enhance our future performance.

We had <u>some</u> positive news to report last year, 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 current 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.

- Furthermore, the closure of our Danville plant, 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 last 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. Fiscal year 2007 results will also be negatively impacted by the unfavorable verdict in a California employment matter and the resulting damages of $25 million levied against the Company last week. We do not yet know what the most likely outcome will be, but under California law and United States Supreme Court decisions, the damages should be substantially reduced.

I want to spend the remainder of our time together this afternoon discussing fiscal year 2007 and beyond. Universal 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.

Currently, the leaf tobacco industry and Universal are in a period 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, worldwide demand for our product may have peaked. However, further consolidation in the manufacturing sector, market share growth by multinational manufacturers, and eventual access to the Chinese domestic market could present significant opportunities in the future.
- Some countries, such as Zimbabwe and the United States, which have historically been reliable suppliers of high quality export leaf 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 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 which must be restored if we are to improve our profitability.

We are taking the necessary and significant steps to improve the Company's future performance. It will take time to do that. During the current 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.

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 that we can and will achieve through focus, hard work, and dedication.

Perhaps the most important goal is also the most straightforward: to be the low cost processor and supplier of high quality leaf tobacco that can be sold at reasonable margins. Reaching that goal will improve our profitability.

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 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, what we do best – buying, processing, and selling leaf tobaccos. As George said earlier, we recently sold our Dutch-managed non-tobacco businesses for approximately $540 million or nearly 8 times EBITDA. Although those businesses have been successful and have contributed to the Company's economic performance over the years, we believe it was the right time to exit them. 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 by reducing crop sizes, eliminating marginal operations, and slowing capital expenditures. In the past, we have been comfortable with debt levels as high as 60 percent of total capitalization. Today, with a new and still evolving global tobacco market structure, we have targeted between 35 – 45 percent of debt to total capitalization. The sale of the non-tobacco businesses has brought us to the top of that range. You can see more detail on the pro forma balance sheet at June 30, 2006, which we included in your packets. 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. We believe that the measures we are taking will enable us to once again generate free cash flow, and we have a long-standing policy about using it. We will first use it to expand our business if we can earn proper returns. If such opportunities do not arise, we will return the funds to our shareholders through dividends or share repurchase within the constraints of our balance sheet requirements to

manage debt levels. Since 1998, we have returned $350 million to our shareholders through share repurchase and over $330 million in dividends. We have increased our common dividend for 35 consecutive years. The annual dividend rate is now $1.72 per share, which represents a yield of about 4.7%. We are proud of our record.

- Finally, we will continue to operate our global 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. However, I believe that this year of transition sets the stage for improved cash flow and profitability for the Company in the years ahead.

Do you have any questions?