Universal Corporation
Remarks at the 2007 New York Investors Show
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We may be making some forward looking statements today. As such they are based on estimates and certain assumptions about future events. We urge you to read our 10-K for the year ended March 31, 2007, for more information about the many factors that can affect those estimates and assumptions.

I [George C. Freeman, III, President, Universal Corporation] am going to talk about three things today: our business, our performance, and our outlook.

Universal is a leaf tobacco merchant – a pure play. We are focused on one business, leaf tobacco. We don’t produce any consumer products. Oversimplifying our business, we supply leaf tobacco to the manufacturers of cigarettes, cigars, and other tobacco products. We buy four main types of cured tobacco from farmers. Flue-cured, burley, and oriental tobaccos are used in manufacturing cigarettes, and dark tobaccos are primarily used in making cigars and smokeless products. The bulk of our business is in flue-cured and burley tobaccos, which we thresh to remove the heavy stem from the leaf and pack for shipment to our customers. Leaf tobacco is semi-perishable until it has been threshed and redried. After processing, however, it can be stored for many years. Given the perishable nature of leaf tobacco, our processing facilities are located in the major tobacco producing areas.

When we contract directly with farmers, we agree to buy their entire crop. Flue-cured tobacco leaves on a single stalk of the plant have different characteristics and are harvested at different times. For example, the top leaves may be used by a manufacturer as flavor component in his blend while the lower leaves may be used by a different manufacturer as filler. One of the essential skills that leaf merchants must have is the ability to market all of the crop to different buyers.

Leaf tobacco is not your typical agricultural product. Particularly, it is crucial to understand that unlike most high volume agri-products, leaf tobacco is not a commodity. There are no commodity markets for it, and it is not homogeneous. There are distinct regional variations among tobacco of the same type.

For example, Tanzanian flue-cured tobacco has different characteristics from U.S. flue-cured tobacco and is employed differently in cigarette blends. So we can't hedge our risk through commodity markets, and our customers can't do it either. Consequently, quality becomes a key differentiator, and I believe this plays to our strengths.

Export tobacco is sold in U.S. dollars, which reduces currency risk after we have purchased the tobacco. However, we still have local currency risk since leaf tobacco is purchased from farmers in local currency. For example, our Brazilian subsidiary uses the U.S. dollar as functional currency so after we buy the tobacco we have no further currency risk on the leaf itself; however, processing cost is still incurred in local currency.

Another key factor in our business is that our major customers commit to buy leaf in advance. Those commitments take many forms from written contracts to handshakes. Our customers, however, have historically honored their commitment regardless of the form. In general, our leaf inventory is over 80% committed for sale to customers, and our customers pay interest and carrying charges on their leaf from the day we buy it for their order. So leaf tobacco is not your typical agricultural product!

Among all of our important customers, we serve five multinationals who represent as much as 80% of our business. We have strong relationships with each of them. They are Philip Morris, Japan Tobacco, Imperial Tobacco, BAT, and House of Prince. Although BAT is still partially vertically integrated, manufacturers generally prefer not dealing with large numbers of farmers all over the world. Since the strength, efficiency, and security of the tobacco supply chain is vital to our success and to the success of our customers, we manage social responsibility programs and good agronomic practices at the farm level, which are not our customers' core competencies. So, they rely on us, the leaf dealers to provide them with the quantities and quality of leaf that they need with the assurance that the product was produced in a sustainable way and under conditions that are acceptable to the world community.

Although China produces a major share of the world's cigarettes, it is not a multinational manufacturer. China is primarily a domestic market. It produces more flue-cured tobacco than the rest of the world combined and uses most of it internally. As the Chinese population has become more affluent, however, they are looking for better quality tobacco. So we trade with China, although it is not a significant component of our volume, and we see it as a potential area for opportunistic growth.

We sell tobacco globally, and we source it from our strong positions in the major leaf export markets -- South America, Southern Africa, and North America. We also source leaf from Europe and Asia, and our joint venture sources oriental tobacco in the Mediterranean area. There is only one other global leaf tobacco merchant, but we encounter competition in some markets from regional dealers. Without question, our global footprint is a distinct competitive advantage. In addition, the global nature of our business reduces the impact of local changes in market conditions and demand on our overall performance. It also helps us weather changes and interruptions in local source markets. Since ours is a global product, our sales are global. So, changes in demand in local markets are also mitigated.

We believe that there are several keys to our success in this business. We foster strong, long-term relationships with our major customers. As I mentioned earlier, this is not a commodity business, and customer relationships are key. They let us know in advance how much tobacco they will need from a country so that we can contract for the right size crop. The relationships are symbiotic and more like alliances than normal customer relationships. We truly need each other, and work with each other in times of market abnormalities, such as supply disruptions.

We have strong local management in the major leaf markets. We don't think that we can manage far flung operations effectively from Richmond, Virginia, so it is important to have strong managers on the ground who can respond quickly to economic, political, and other market changes. We believe that our strong local management model differentiates us in our industry.

We focus on providing our customers high quality products and services while managing our costs. Because we provide quality assurances to our customers, we are not the lowest cost producer of leaf. We believe, however, that we offer the highest value for the money.

We are financially strong. The basic concept of our business has not changed in the past 100 years, but we have seen increasingly rigorous customer requirements as well as changes in sources of supply. Our strong financial position has enabled us to respond.

We have had an array of challenges during the last three fiscal years, which adversely impacted our normally steady performance. We experienced the perfect storm of weather, economic and political events. Let me give you a little background first.

There was a sizeable reduction in Zimbabwean flue-cured crops due to political turmoil in that country. So, we did two things. First, we, and the rest of the industry, ramped up production in Brazil, and second, to give our customers the security of diversified supply, we started flue-cured growing projects in Zambia and Malawi. By fiscal year 2006, as a result of a drought, we received the worst crop in 20 years in Brazil. Not only was it a poor quality crop, it was huge, and as the U.S. dollar had begun its decline, it was relatively more expensive as well.

Brazil laid the foundation for a global oversupply of flue-cured tobacco, which affected demand for the tobacco that we produced in our new African growing projects. In those projects, the quality was good, but low yields made unit costs very high. In response to the oversupply of flue-cured tobacco, we decided to reduce our Brazilian volumes. Marginal farmers were weeded out, and some farmers did not have the funds to fully repay our crop advances.

The continuing economic and political problems in Zimbabwe caused currency-related volatility in our earnings as well. By March 2007, we made the decision to exit our direct involvement in the African flue-cured growing projects.

As you would expect, the confluence of all of these events and our responses had a pronounced impact on our results. The effect was concentrated on the operating income of the “Other Regions” segment of our flue-cured and burley operations, which fell by

$60 million between 2005 and 2006. Over the three-year period, charges primarily related to high bad debt provisions on farmer receivables and higher inventory valuation adjustments and incremental African currency remeasurement losses have in total exceeded $100 million.

In addition to items that affected segment operating income, we also recognized restructuring, impairment, and other charges over the last three fiscal years related to a European Commission fine, deconsolidating our Zimbabwean operations, closing a plant in the United States, and exiting our African flue-cured growing projects. In total, these charges have exceeded $100 million.

A lot of hard decisions were made during this period, and obviously many were expensive. But, I have no doubt we took all of the right steps for our company going forward.

Not surprisingly, the impact of these events has been evident in our results from continuing operations. During the past ten years, our operating income from our tobacco operations averaged less than $200 million, but if you adjust it for the charges and other non-recurring items, the average is about $215 million.

By 2007, both income from continuing operations and operating income exceeded 2005 levels. Diluted earnings per share also recovered in 2007, but was still below the amount we earned in 2005, primarily because we issued preferred stock in 2006.

The first half of fiscal year 2008 was strong compared to last year and especially so considering the headwinds we are facing. Income from our continuing operations, was $59 million, or $1.81 per diluted share. This is a significant improvement over our performance last year, when we earned $24 million or $0.63 per diluted share.

This year’s results included over $3 million in restructuring charges related to personnel reductions, while last year’s included charges totaling about $17 million related to our Zambian operations.

Although the lower restructuring and impairment charges, as well as lower charges in Africa and Brazil clearly improved our results, we also saw benefits from shipment timing and operational improvements. These benefits were partially offset by lower margins in Africa and lower trading profits in North America. Non-operating benefits included lower net interest expense and a lower effective tax rate.

Our recovery has been tied to our renewed focus on our core business. We intend to remain the low-cost processor and supplier of high quality leaf tobacco that can be sold at reasonable margins. In September 2006, we sold our non-tobacco businesses, and we received $551 million in total proceeds, which improved our capital structure. We have also been improving or eliminating unprofitable operations, like the African flue-cured projects. While we believe that we are now right-sized, cost control is essential to maintaining our position.

The operating cash needs of our tobacco operations were significant early in this three-year period as we funded the increased working capital requirements for larger crops in Brazil and the growing projects in Africa as well as capital spending for a new factory in Mozambique. In fiscal year 2007, we reduced our capital spending to levels below our depreciation expense. Throughout the period, we continued to return funds to shareholders through dividends.

During our more challenging times, operating cash flows were not sufficient to fund our requirements, so we issued about $190 million in new debt during fiscal year 2005. As debt balances grew in 2006, we issued $220 million in preferred stock to manage our capital structure. Ultimately, the proceeds of the sale of our non-tobacco business and working capital reductions brought our debt balances back down.

We now have a stronger balance sheet. We have reduced our net debt to capitalization ratio from 44% as of September 30, 2006, to 27%, as of September 30, 2007. Our target ratio is between 35% and 45%.

We have also improved our free cash flow, primarily by reducing capital spending and working capital investment. It has increased from negative $120 million in fiscal year 2005 to positive $220 million in fiscal year 2007, and although it is unusual at this point in the season, we have generated free cash flow. Our policy for using it is long-standing. After considering our balance sheet structural requirements, we use our free cash flow to invest in our business to create shareholder value through capital investments or acquisitions. If an investment opportunity with proper returns is not available, we return the funds to shareholders through dividends and share repurchases.

We have a long history of returning funds to our shareholders. We have increased our dividend on common stock each year for the past thirty-seven years, and from 1998 through fiscal year 2004, we returned over $350 million to shareholders through share repurchases. We also announced last week the authorization of a new $150 million stock repurchase program.

Of course, we have our challenges. We believe that with the increased efficiency in manufacturing techniques, demand for leaf tobacco has peaked, and we have been operating for several years in a climate of unhealthy oversupply. Presently, it appears that the gap between supply and demand is closing in flue-cured leaf. However, in burley, we now see an undersupply situation, primarily due to weather related short crops in Malawi and Mozambique, causing supply issues and increasing our costs. As I have said, the bulk of our business is with five major customers. They are relying on us to help them navigate through this tight supply situation and take care of them. This speaks to our strong, symbiotic relationships. We should return to equilibrium in two or three years. It will be our job to help keep that equilibrium in our part of the business.

Recently we have also been working to control local costs in the face of a weakening U.S. dollar. As you all know, the U.S. dollar continues to decline against many currencies and, although we work with our customers to mitigate the effects, it remains a source of higher U.S. dollar costs in many areas.

In closing, we are confident in the strength of our organization. We are focused on our core leaf tobacco business. We like this business very much and continue to be excited about it.

Although ours is not a growth industry, we believe there are opportunities to grow with our major customers as they continue to gain market share, to increase trade with China, and to provide our services to manufacturers who may move away from vertical integration. With our improved balance sheet and focus on our core business, we are well positioned to take advantage of these opportunities.

We have worked hard to obtain our leading position in our global industry. Today both our balance sheet and cash flows are strong, our earnings have improved, and we intend to continue our history of returning value to our shareholders.